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1. MEASURES CONCERNING INDIVIDUALS

1.1 New tax credit for caregivers

Currently, the tax credit respecting the housing of a parent is intended to recognize the social value of the gesture made by adults who house an ascendant, in a financial context in which it is increasingly difficult to create new places in reception centres.

Subject to certain conditions, taxpayers who house an eligible parent may claim a refundable tax credit of $550, which is not reduced on the basis of the parent's income.

Only the father, mother, grandfather, grandmother or another direct ascendant, or the uncle, aunt, great-uncle or great-aunt, of the taxpayer or the taxpayer's spouse are considered eligible parents for the purpose of the application of this tax credit, provided they are 70 or older, or at least 60 and have a severe and prolonged mental or physical impairment.

For a taxpayer to be able to claim the tax credit with regard to an eligible parent, the latter must have lived with the taxpayer for a minimum of 365 consecutive days, including at least 183 days in the year for which the tax credit is being claimed. However, more flexible housing conditions are provided for in the case of a parent with a severe and prolonged mental or physical impairment who lives with more than one person for whom he or she is an eligible parent.[1]

To better recognize the social role played by taxpayers who live with an elderly parent or with a person who has a severe and prolonged mental or physical impairment, the refundable tax credit respecting the housing of a parent will be increased by $50 and transformed into a refundable tax credit for caregivers, as of the 2003 taxation year.

As a result of this increase and transformation, taxpayers will be able to claim $600 in tax assistance regarding not only direct ascendants, but several other relatives as well, provided the relative lives with them and has a severe and prolonged mental or physical impairment. Such a person is hereinafter referred to as the "eligible relative".

1 In such a case, a taxpayer may claim the tax credit with regard to an eligible parent if the latter lived with the taxpayer for a minimum of 90 consecutive days during the year for which the tax credit is being claimed, and lived with the taxpayer or any other person for whom he or she is an eligible parent for a minimum of 365 consecutive days, including at least 183 days in the year for which the tax credit is being claimed.

More specifically, for the purpose of the application of the new tax credit for caregivers, the term "eligible relative" of an individual means:

— the individual's spouse, where the spouse has a severe and prolonged mental or physical impairment rendering him or her unable to live alone, as attested to by a recognized practitioner; or

— a person who:

  – is 18 or older and the child, grandchild, nephew, niece, brother, sister, father mother, uncle, aunt, grandfather, grandmother, great-uncle, great-aunt or another direct ascendant of the individual or the individual's spouse;

  – has a severe and prolonged mental or physical impairment, unless the person is 70 or over and the father, mother, grandfather, grandmother or another direct ascendant, or the uncle, aunt, great-uncle or great-aunt, of the individual or the individual's spouse.

For greater clarity, if the eligible relative is the individual's spouse, the attestation of the relation's inability to live alone because of an impairment must be provided, on the prescribed form, by the same practitioner who attests to the relation's severe and prolonged mental or physical impairment.

The terms and conditions governing the application of the tax credit for caregivers are the same as those governing the application of the tax credit respecting the housing of a parent before its transformation.

Comparison of the categories of persons giving entitlement to the tax credit for caregivers under the Québec and federal tax systems[1]

The transformation of the tax credit respecting the housing of a parent into a tax credit for caregivers means that 55 000 more caregivers will be recognized for the support they give their relatives.

These new persons will include primarily individuals who look after their spouse, brother or sister suffering from a severe and prolonged mental or physical impairment.

COMPARISON OF THE CATEGORIES OF PERSONS

Eligible relatives or parents, by age group	Without an impairment			With an impairment[2]		
	Québec		Federal	Québec		Federal
	Before Budget	After Budget		Before Budget	After Budget	
18 to 59 years						
Spouse					•	
Father/mother/grandparent					•	•
Brother/sister					•	•
Uncle/aunt					•	•
Great-uncle/great-aunt					•	
Child/grandchild/nephew/niece					•	•
60 to 64 years						
Spouse					•	
Father/mother/grandparent				•	•	•
Brother/sister					•	•
Uncle/aunt				•	•	•
Great-uncle/great-aunt				•	•	
Child/grandchild/nephew/niece					•	•
65 to 69 years						
Spouse					•	
Father/mother/grandparent			•	•	•	•
Brother/sister					•	•
Uncle/aunt				•	•	•
Great-uncle/great-aunt				•	•	
Child/grandchild/nephew/niece					•	•
70 years or over						
Spouse					•	
Father/mother/grandparent	•	•	•	•	•	•
Brother/sister					•	•
Uncle/aunt	•	•		•	•	•
Great-uncle/great-aunt	•	•		•	•	
Child/grandchild/nephew/niece					•	•

1 Under the Québec tax system, the tax credit is refundable, whereas, under the federal system, it is non-refundable.

2 Under the federal system, the person must absolutely be a dependant of the caregiver because of a mental or physical impairment, whereas, under the Québec system, the person gives entitlement to the tax credit even without being financially dependent on the caregiver, as long as he or she has a severe and prolonged mental or physical impairment.

1.2 Introduction of a refundable tax credit for maternity or adoption leave taken by self-employed workers

On May 25, 2001, the government passed the *Act respecting parental insurance* in order to set up a Québec parental insurance plan. In passing that Act, the government indicated its firm intention of creating a separate plan for Québec, which, contrary to the current federal plan, would apply to self-employed workers. The Québec plan would also be more generous and accessible than the federal plan.

Despite repeated requests by the Québec government, the federal government still has not shown any intention of facilitating the implementation of the Québec plan. Given that the Québec plan has the unanimous backing of all sectors concerned, the government is resolved to use every means at its disposal to ensure that a greater number of taxpayers are able to take advantage of a more generous parental insurance plan.

On March 19, 2002, the Québec government turned to the Court of Appeal for a ruling on, in particular, the constitutional validity of the maternity and parental benefits of the federal plan provided for in the *Employment Insurance Act*.

However, while the government waits for the opinion of the Court or for an overture from the federal government to begin genuine negotiations, many people who are self-employed must, in the absence of parental benefits, shorten the leave they take further to the birth or adoption of a child.

To palliate this situation, tax assistance of up to $5 070 will be granted to them, in the form of a refundable tax credit, for the year in which they have a child or adopt one. This assistance will represent, on the basis of a maximum annual income of $39 000, the equivalent of 55% of self-employment income, for twelve weeks.

This refundable tax credit, which will be granted until the Québec parental insurance plan is implemented, is twofold: the first component targets self-employed women who give birth to a child or whose pregnancy is terminated after nineteen weeks, while the second component is intended for any self-employed person who adopts a child.

❑ General eligibility conditions

To claim, for a given taxation year, the refundable tax credit for maternity or adoption leave taken by self-employed workers, individuals must meet the following conditions:

— during the year, they gave birth to a child, their pregnancy was terminated after nineteen weeks or an eligible certificate was issued to them, or an eligible judgment was rendered in their favour, with regard to the adoption of a minor child other than the child of their spouse, with whom they ordinarily live;

— they were resident in Québec on December 31 of that year or, if they died during the year, on the date of their death;

— they were resident in Québec on December 31 of the calendar year preceding the taxation year concerned;

— their business income for the calendar year preceding the taxation year concerned was at least $2 000.

However, individuals cannot claim the tax credit for a given taxation year if they or their spouse is exempt from income tax for that year.

❑ Determination of the tax credit

• Maternity component

An eligible individual who gives birth to a child during a given taxation year may claim a refundable tax credit equal to the amount determined using the following formula:

0.13A – 0.8B

In this regard, the birth of more than one child subsequent to the same pregnancy will be considered a single birth.

An eligible individual whose pregnancy is terminated after nineteen weeks in a given taxation year, may claim a refundable tax credit equal to the amount determined using the following formula:

(0.13A – 0.8C) x D/12

For the purpose of the application of these formulas:

— "A" corresponds to the eligible individual's business income for the calendar year preceding the taxation year concerned, to a maximum of $39 000.

— "B" represents the total of the amounts received or receivable by the eligible individual as maternity benefits under the *Employment Insurance Act* further to the birth of the child.

— "C" represents the total of the amounts received or receivable by the eligible individual as illness benefits and, where applicable, as maternity benefits, under the *Employment Insurance Act*, further to the pregnancy and its termination.

— "D" represents the number of weeks, not exceeding twelve, during which the eligible individual must, upon written notification by a physician, suspend business activities further to the termination of the pregnancy.

- **Adoption component**

Where, during a given taxation year, an eligible certificate is issued to an eligible individual, or an eligible judgment is rendered in the individual's favour, further to the adoption of a minor child, the individual may claim a refundable tax credit equal to $5 070 or 13% of his or her business income for the calendar year preceding the taxation year concerned, whichever is lower.

However, where the eligible individual, or his or her spouse, receives or will receive parental benefits under the *Employment Insurance Act* further to the adoption, the amount of the tax credit otherwise determined must be reduced by the total benefits thus received or receivable that are attributable to the first twelve weeks of benefits included in the period for which the benefits are payable.

For the purpose of the application of this tax credit, the adoption of more than one child at the same time will be considered to be a single adoption.

Moreover, where more than one eligible individual is entitled to the refundable tax credit with respect to the adoption of a child, the total of the amounts indicated by each of them on their income tax return must not exceed the amount that would be granted if only one of them were entitled to the tax credit. In the event of a disagreement between the eligible individuals, the Minister of Revenue will determine the amount each of them may claim.

For the purpose of the application of this new tax credit, the term "eligible certificate" refers to the certificate issued to an eligible individual under the *Act respecting adoptions of children domiciled in the People's Republic of China*, upon the registration of the adoption by the clerk of the Court of Québec.

The term "eligible judgment" means the judgment, rendered by a court having jurisdiction in Québec, recognizing a judgment rendered outside Québec respecting the adoption of a child by an individual, or the judgment rendered by a court having jurisdiction in Québec respecting the adoption of a child by an individual, except for a judgment contemplated in the *Act respecting adoptions of children domiciled in the People's Republic of China*.

❑ Accessory rules

To claim this tax credit for a given taxation year, an eligible individual must enclose, with the income tax return filed for that year, a form prescribed by the ministère du Revenu du Québec (MRQ) and, if the individual's pregnancy was terminated, written notification from a physician indicating the number of weeks during which the individual must suspend business activities.

So as not to reduce the tax assistance granted, the refundable tax credit for maternity or adoption leave taken by self-employed workers will not be taxable. In addition, eligible individuals will be able to use it to reduce their income tax instalments.

❑ Application date

The refundable tax credit for maternity or adoption leave taken by self-employed workers will apply as of the 2003 taxation year.

1.3 Introduction of a refundable tax credit for new graduates working in a remote resource region

Currently, few young people who leave their native region to pursue specialized studies return there to begin their professional career. This migration of young people to major urban centres is a social phenomenon of the utmost concern for the future of outlying regions, because it affects them demographically as well as socially and economically.

At the *Rendez-vous national des régions*, the government committed itself not only to fighting against such an exodus of young people, but also to encouraging the migration of young graduates to outlying regions.

Concrete form is being given to these commitments, in particular through the announcement of fiscal measures targeting, on the one hand, new graduates who settle in a remote resource region[2] and, on the other hand, employers in such a region that offer on-the-job training sessions to students or jobs to new graduates.[3]

2 These measures are described in this subsection and in subsection 1.4.

3 The measures to promote hiring in remote resource regions are described in subsection 2.1.

More specifically, the first of these measures is intended for new graduates who settle in a remote resource region to begin their professional career. They will be able to claim tax assistance in the form of a refundable tax credit of up to $8 000.

❑ Determination of the tax credit

Eligible individuals who reside in an eligible region of Québec on December 31 of a given taxation year, or on the date of their death if they die during the year, may claim, for that year, a refundable tax credit of 40% of their eligible salary for the year, without exceeding the amount by which $8 000 exceeds any amount claimed as this tax credit for a taxation year prior to the taxation year concerned.

To claim this tax credit for a given taxation year, individuals must enclose, with their income tax return, a form prescribed by the MRQ.

❑ Eligible individual

An "eligible individual" for a given taxation year means an individual who has successfully completed the training[4] leading to a recognized diploma and who receives an eligible salary during the year.

❑ Recognized diploma

The following are considered recognized diplomas:

— a Diploma of Vocational Studies (DVS), an Attestation of Vocational Specialization (AVS) or a Vocational Education Certificate (VEC) awarded by the Minister of Education;

— a Diploma of College Studies in technical training (DCS in technical training) awarded by the Minister of Education, or by a college-level educational institution if the Minister of Education delegated that responsibility to the institution;

— an Attestation of College Studies (ACS) in technical training awarded by a college-level educational institution in Québec;

— a university diploma sanctioning a course of studies at the undergraduate or graduate level awarded by a Québec university;

4 For greater clarity, training means courses and training periods, but does not include a period during which a student writes an essay, a dissertation or a thesis.

— a diploma awarded by an educational institution outside Québec and regarding which the Minister of Relations with the Citizens and Immigration has issued an equivalency for any of the diplomas listed above;

— a certification of studies for a post-secondary program of the Conservatoire de musique et d'art dramatique du Québec, the Bar School of Québec, the École nationale de police du Québec or the National Theatre School of Canada.

❑ Eligible salary

An individual's "eligible salary" for a given taxation year corresponds to the income derived for the year from an eligible job attributable to the individual's reference period.

To that end, an individual's "reference period" is the period, not exceeding 52 weeks, which begins in the taxation year concerned or a previous taxation year and during which the individual holds one or more eligible jobs.

For greater clarity, the weeks during which an individual does not hold an eligible job will not be taken into account in determining the duration of his or her reference period.

❑ Eligible job

An "eligible job" refers to an office or employment that an individual takes up within 24 months after having successfully completed the training[5] leading to a recognized diploma or after having obtained a university diploma sanctioning a course of studies at the graduate level further to writing of an essay, dissertation or thesis needed to obtain such a diploma, provided:

— the office or employment is in relation to the field of specialization in which the individual was trained; and

— the employer's establishment where the individual ordinarily works, or to which the individual ordinarily reports, is located in an eligible region.

❑ Eligible region

The term "eligible region" means the territories included in the following administrative regions and regional county municipalities (RCMs):

— Bas-Saint-Laurent (region 01);

— Saguenay–Lac-Saint-Jean (region 02);

5 *Ibid.*

— the Haut-Saint-Maurice RCM;

— the Mékinac RCM;

— Abitibi-Témiscamingue (region 08);

— Côte-Nord (region 09);

— Nord-du-Québec (region 10);

— Gaspésie–Îles-de-la-Madeleine (region 11);

— the Antoine-Labelle RCM;

— the Vallée-de-la-Gatineau RCM;

— the Pontiac RCM.

❑ Application detail

Where an individual goes bankrupt during a given calendar year, the rule under which the bankrupt's taxation year is deemed to begin on the date of the bankruptcy and the current taxation year is deemed to end the day before that date will not apply for the purpose of determining the tax credit.

❑ Application date

This tax credit will apply to individuals who take up an eligible job after the day of the Budget Speech.

1.4 Increase in the tax assistance granted to residents of remote resource regions regarding interest paid on a student loan

To lighten the burden resulting from the obligation to pay interest on a student loan, a non-refundable tax credit is granted to taxpayers who file their income tax return under the general tax system.

In brief, the tax credit for interest paid on a student loan corresponds, for a given taxation year, to 20% of the amount by which the total interest paid since 1998 on a student loan granted notably under the *Act respecting financial assistance for education expenses*, hereinafter referred to as the "total eligible interest", exceeds any part of that total that was taken into account in calculating the tax credit for any other taxation year.

It follows that any unused portion of the tax credit for interest paid on a student loan may be applied against the income tax payable for a subsequent year.

To encourage young graduates to settle in a remote resource region after their studies, the terms and conditions for calculating the tax credit will be modified so as to double the financial assistance granted with regard to the interest paid on a student loan during each of the years they live in such a region.

More specifically, the tax legislation will be amended to provide that, for the purpose of the application of the tax credit regarding the interest paid on a student loan for a given taxation year, a taxpayer's total eligible interest otherwise determined for the year will be increased by an amount corresponding to the overall interest included in that total that was paid during each of the taxation years subsequent to the 2002 taxation year, where the taxpayer was living in a remote resource region on December 31 of the year during which the interest was paid, or on the date of his or her death if the individual dies during that year.

For the purpose of the application of this measure, "remote resource region" means the territories included in the following administrative regions and RCMs:

— Bas-Saint-Laurent (region 01);

— Saguenay–Lac-Saint-Jean (region 02);

— the Haut-Saint-Maurice RCM;

— the Mékinac RCM;

— Abitibi-Témiscamingue (region 08);

— Côte-Nord (region 09);

— Nord-du-Québec (region 10);

— Gaspésie–Îles-de-la-Madeleine (region 11);

— the Antoine-Labelle RCM;

— the Vallée-de-la-Gatineau RCM;

— the Pontiac RCM.

This measure will apply as of the 2003 taxation year.

1.5 Introduction of tax relief for employee transit passes

Although Québec's per capita greenhouse gas emission rate attributable to transportation is the lowest of the Canadian provinces, greenhouse gas emissions in Québec are nonetheless related primarily to the transportation sector. In fact, passenger and goods transportation is directly responsible for 37% of emissions. The increase in the number of cars per household, urban sprawl and the growing popularity of utility vehicles are among the factors contributing to the increase in automotive gas emissions.

In this context, reducing the energy consumption of vehicles, including cars, appears to be an important aspect of the solution to climate change. For example, one bus filled with passengers can replace 40 cars on the road during rush hour, which means a reduction of 175 tonnes of greenhouse gas emissions a year.

Increased use of public transit could therefore be an efficient way to reduce greenhouse gas emissions.

To encourage employees to regularly use public transit to commute to work, various tax relief measures will be introduced.

❑ Non-taxation of benefits granted by employers

Under the tax legislation, when an employer compensates an employee for expenses incurred to commute to work, using public transit or otherwise, the employee is almost always required to include the value of that compensation in the calculation of his or her income.

The tax legislation will be amended to provide that individuals will no longer be required to include, in the calculation of their income from an office or employment, the value of the benefit received because of, or in the course of, their office or employment, where the benefit results from:

— the total or partial reimbursement, upon presentation of supporting documents, of the cost of an eligible subscription-type transit pass, where the pass was acquired to commute between an individual's usual place of residence and his or her place of work; or

— the granting of an eligible transit pass, where the pass was granted primarily to commute between an individual's usual place of residence and his or her place of work.

For greater clarity, the cost of eligible transit passes, paid or reimbursed by an employer, will be fully deductible in the calculation of the employer's income.

❑ Deduction in the calculation of income

Currently, the tax system does not provide for any deduction of travel expenses incurred by employees to commute to work.

The tax legislation will be amended to allow individuals to deduct, in the calculation of their income from an office or employment for a taxation year, any amount they pay in the year to purchase an eligible subscription-type transit pass, hereinafter also called "reserved transit pass", provided the pass is acquired to commute between an individual's usual place of residence and his or her place of work, insofar as:

— the individual is not reimbursed for the amount, and is not entitled to be so reimbursed; and

— the amount paid is not included in the calculation of another deduction.

However, individuals cannot include, in the calculation of this deduction, an amount paid to purchase a reserved transit pass if they receive, for the period for which the pass is valid, an allowance for work-related travel which they are not required to include in the calculation of their income, except in the case of an allowance intended to cover expenses other than transportation costs or an allowance granted for a specific trip.

To claim this deduction for a given taxation year, individuals must enclose, with their income tax return for the year, a prescribed form completed by their employer indicating, in particular, whether or not they received a reimbursement for the purchase of a reserved transit pass or a non-taxable allowance for travel expenses.

Individuals will not be required to enclose proof of purchase of the reserved transit passes with their income tax return. However, they must keep the passes for which they claim a deduction, since the MRQ may demand that they produce the expired passes as proof of purchase in a subsequent audit of their income tax return. The time period for keeping the passes is the same as that under the general rule, according to which anyone who keeps registers must retain them, as well as any documents substantiating the information contained therein, for six years after the last year to which they apply.

❑ Eligible transit passes

For the purpose of the application of these measures, the term "eligible transit pass" designates a transit pass enabling the use of a public transport service provided by a public entity authorized by law to organize such a service.[6]

The term "eligible subscription-type transit pass" refers to an eligible transit pass involving a subscription for a period of at least one month.

❑ Application dates

The measure respecting the non-taxation of benefits granted by employers will apply to eligible subscription-type transit passes that are valid for a period after February 28, 2003, and to any other eligible transit pass provided by an employer after February 28, 2003.

The measure concerning the deduction in the calculation of an employee's income will apply to the acquisition of eligible subscription-type transit passes that are valid for a period after February 28, 2003.

1.6 Increase in the medical expenses deductible for dependants

The tax system currently provides for a non-refundable tax credit to offset a portion of the medical expenses paid by taxpayers, where the expenses exceed a certain level of income.

As a rule, individuals who pay eligible medical expenses for themselves, their spouse and the dependants who ordinarily live with them can deduct, in the calculation of their income tax otherwise payable, an amount equal to 20% of the portion of the expenses that exceeds 3% of family income.

However, when taxpayers include expenses paid for a dependant other than their spouse in the calculation of their eligible medical expenses and the dependant's income exceeds the amount for recognized essential needs for the purpose of the application of the basic amount ($6 150 in 2003), the amount of the non-refundable tax credit for medical expenses to which they would otherwise be entitled must be reduced by an amount representing 58% of the amount by which the dependant's income exceeds the amount for recognized essential needs.

6 For example, public entities authorized by law to organize a public transit service are the authorities contemplated in the Act respecting public transit authorities (such as the transit authorities of the cities of Montréal, Québec, Gatineau and Saguenay), the Agence métropolitaine de transport and municipalities.

This reduction in the amount that would otherwise be deductible in the calculation of an individual's income tax payable is equivalent to a decrease of $2.90 in the individual's eligible medical expenses for every dollar of the dependant's income that exceeds the amount for recognized essential needs.

Thus, the medical expenses paid by an individual for a dependant whose income exceeds the amount for recognized essential needs must be relatively high in order for the individual to be able to claim the non-refundable tax credit for medical expenses with regard to these expenses.

To better recognize the contribution of persons who support relatives and further simplify the tax system, individuals will no longer be obliged, as of the 2003 taxation year, to reduce the non-refundable tax credit for medical expenses otherwise determined in order to take into account the portion of the income of dependants for whom medical expenses were paid that exceeds the amount for recognized essential needs.

1.7 Recognition of public lending rights for the application of the copyright deduction

Under the current legislation, an individual who, in a taxation year, is a professional artist within the meaning of the *Act respecting the professional status of artists in the visual arts, arts and crafts and literature, and their contracts with promoters* or an artist within the meaning of the *Act respecting the professional status and conditions of engagement of performing, recording and film artists*, hereinafter referred to as a "recognized artist", may claim, for that year, where he or she files an income tax return under the general tax system, a deduction in the calculation of taxable income so as to exempt from income tax part of the income from copyrights of which he or she is the first owner.

This deduction, which cannot exceed $15 000 of such income per year, is reduced by $0.50 for every dollar of copyright income that exceeds $30 000. Thus, a recognized artist who earns income of $60 000 or more in a given year from the dissemination of works of his or her creation cannot claim any deduction in this respect for that year.

Certain recognized artists are entitled to receive rights under a federal program administered by the Public Lending Right Commission for their literary works included in the catalogue of various public or university libraries. Given that these rights, hereinafter called "public lending rights", do not qualify as copyrights under the *Copyright Act*, they cannot be taken into account in calculating the deduction for copyright income granted to a recognized artist.

To take into account the fact that public lending rights are closely related to copyrights, the rules used to determined eligible income for the application of the deduction for copyright income will be modified to enable a recognized artist to include the amount of public lending rights received in a given taxation year in the calculation of his or her income for that year from copyrights of which he or she is the first owner.

This modification will apply as of the 2003 taxation year.

1.8 Simplification of the tax treatment of donations made by members of a religious order

Under the current legislation, members of a religious order who have taken a vow of perpetual poverty can usually claim a tax credit of $792 if they file an income tax return under the general tax system. The purpose of this tax credit is to acknowledge that the ability of such individuals to pay income tax is reduced because they support the members of their order who do not have an income.

Moreover, like any other individual, they are entitled to claim a non-refundable tax credit for donations made to recognized donees, notably the religious order to which they belong, where the order qualifies as a registered charity.

Since the 2000 taxation year, the tax credit for donations has been calculated on the basis of two rates. The rate applicable to the first $2 000 taken into account in calculating the tax credit is 20%, that is, the rate applicable to the conversion of the recognized amounts into non-refundable tax credits. The rate applicable to the amount in excess of the first $2 000 is 24%, namely, the maximum marginal rate used to calculate personal income tax.

However, the total amount of donations—other than gifts of cultural property, gifts of property with undeniable ecological value and gifts made to a government before April 1, 1998—that may be taken into account in calculating the tax credit for donations for a given taxation year is generally limited to 75% of the donor's income, unless the donor dies in the year concerned or the following year, in which case the limit is 100% of the donor's income.

The portion of donations made in a year that, because of the income-related limit, cannot be taken into account in the calculation of the tax credit for donations may be carried forward five years, subject to the application, for each of those years, of the rule limiting the amount of eligible donations to a specific level of the donor's income.

Considering that members of a religious order, after professing poverty, completely renounce the free use and disposal of the material goods they acquired, notably through their work, on behalf of their order, the tax treatment applicable to members of religious orders having taken a vow of perpetual poverty will be simplified to better recognize their special situation.

First, for the purpose of the application of the tax credit for donations, the income-related limit will be raised from 75% to 100% of the donor's net income with regard to donations made, by a member of a religious order having taken a vow of perpetual poverty, to a religious order qualifying as a registered charity.

Second, considering that the improvement to the tax credit for donations will take into account all amounts given by a member of a religious order to support other members of the order, the tax credit for members of a religious order will no longer be necessary and will therefore be eliminated.

These modifications will apply as of the 2003 taxation year.

1.9 More eligible adoption expenses for individuals residing in outlying regions

The tax system grants taxpayers who adopt a child a refundable tax credit equal to 30% of the eligible adoption expenses paid by them or their spouse, provided the adoption process is completed. However, the adoption expenses eligible for the tax credit are capped at $20 000. Thus, taxpayers who adopt a child may claim a refundable tax credit of up to $6 000.

Eligible adoption expenses include, among other things, the travel and accommodation expenses paid by the parents when they go to a foreign country to bring home their child, the child's travel expenses for the trip to his or her new home, as well as the travel expenses of an escort if the parents do not accompany the child on the trip.

However, eligible adoption expenses do not include the travel and accommodation expenses paid by parents who live in an outlying region to go to a major urban centre in Québec in order to pick up an adopted child escorted only as far as the centre.

To better recognize the expenses relating to the adoption of a child, the tax legislation will be amended to provide that travel and accommodation expenses paid by parents to pick up, in a major urban centre in Québec, an adopted child escorted only as far as the centre constitute eligible expenses for the purpose of the application of the refundable tax credit for adoption expenses.

This amendment will apply to final adoption judgments rendered after December 31, 2000 or, where applicable, to certificates of registration of an adoption issued by the clerk of the Court of Québec after that date.

2. MEASURES CONCERNING BUSINESSES

2.1 Measures to encourage hiring in remote resource regions

In recent years, the government has used a variety of fiscal measures to accelerate economic development in certain regions. Accordingly, in the March 29, 2001 Budget Speech, a tax holiday for manufacturing SMEs in remote resource regions and a refundable tax credit for processing activities in the resource regions were introduced.

Currently, young people are leaving remote resource regions for major centres, often to pursue specialized studies. Once they have completed these studies, very few of these young people return to the regions, preferring to start their professional life in Sherbrooke, Québec City or Montréal, for instance.

The economic problems facing remote resource regions generate other obstacles to their development, notably at the demographic level. It is thus important to convince young people of these regions to stay there, and to attract young people there from all over Québec.

2.1.1 Introduction of a refundable tax credit for hiring new graduates

Experience shows that if a new graduate delays his return to his native region, he will probably never return to live and work there. All the government's efforts in recent years to accelerate the economic development of the regions must be supported by the regeneration and vitality of the population living there. Besides, graduates, young and less young, who were born and have lived in the major centres could be tempted by life in the regions.

Accordingly, to encourage employers operating in these regions to hire new graduates at the vocational, college or university levels, tax assistance will be introduced for every job occupied in any of these regions by such graduates. This tax assistance will provide the employer with support for the additional financial cost required for the apprenticeship and support of an employee in his first working experience in a job related to his field of specialization.

More specifically, the tax assistance in this respect will consist of a refundable tax credit of 20% that an eligible employer who carries on a business in a remote resource region may claim regarding the eligible salaries he pays to his eligible employees.

❑ Eligible employer

An "eligible employer", for a taxation year, means an individual, a corporation, or a partnership, other than an excluded employer, who, during the year, carries on a business in an eligible region and has an establishment there.

❑ Eligible employee

An "eligible employee" of an eligible employer means an employee of an establishment of such employer located in an eligible region, who holds an eligible job and is not:

— if he or she is an eligible employee of an eligible employer who is an individual, an employee who is not at arm's length with such individual;

— if he or she is an eligible employee of an eligible employer that is a partnership, an employee who is not at arm's length with a member of such partnership;

— if he or she is an eligible employee of an eligible employer that is a corporation, a specified shareholder of such corporation or, if such corporation is a cooperative, a specified member of such cooperative.

In addition, the employee must have successfully completed training[7] leading to the awarding of a recognized diploma. The expression "recognized diploma" means:

— a Diploma of Vocational Studies (DVS) awarded by the Minister of Education;

— an Attestation of Vocational Specialization (AVS) awarded by the Minister of Education;

— a Vocational Education Certificate (VEC) awarded by the Minister of Education;

— a Diploma of College Studies in technical training (DCS in technical training) awarded by the Minister of Education or a college-level educational institution if the Minister of Education has delegated such responsibility to the institution;

— an Attestation of College Studies (ACS) in technical training awarded by a college-level educational institution in Québec;

7 For greater clarity, training means courses and training periods, but does not include a period during which a student writes an essay, a dissertation or a thesis.

— a university diploma sanctioning a course of studies at the undergraduate or graduate level awarded by a Québec university;

— a diploma awarded by an educational institution outside Québec and regarding which the Minister of Relations with the Citizens and Immigration has issued an equivalency for any of the diplomas listed above;

— a certification of studies for a post-secondary program of the Conservatoire de musique et d'art dramatique du Québec, the Bar School of Québec, the École nationale de police du Québec or the National Theatre School of Canada.[8]

❑ Eligible job

An "eligible job" of an eligible employee means a job the employee begins to hold during the 12 months after he or she has successfully completed the training[9] leading to the awarding of a recognized diploma or following the date on which he or she obtained a university diploma sanctioning a course of studies at the graduate level after writing an essay, dissertation or thesis needed to obtain such a diploma, provided such job is related to the field of specialization for which he or she obtained such training.

❑ Eligible regions

Eligible regions will consist of the territory in the following administrative regions and regional county municipalities (RCM):

— Bas-Saint-Laurent (region 01);

— Saguenay–Lac-Saint-Jean (region 02);

— the Haut-Saint-Maurice RCM;

— the Mékinac RCM;

— Abitibi-Témiscamingue (region 08);

— Côte-Nord (region 09);

— Nord-du-Québec (region 10);

— Gaspésie–Îles-de-la-Madeleine (region 11);

8 These programs are also likened to college or university study programs, as the case may be, for the purposes of the Loans and Bursaries Program under Financial Assistance for Studies.

9 See above, note 7.

— the Antoine-Labelle RCM;

— the Vallée-de-la-Gatineau RCM;

— the Pontiac RCM.

❑ Calculation of the tax credit

An eligible employer may claim a refundable tax credit, for a taxation year, equal, for each eligible employee, to 20% of the eligible salary incurred regarding such eligible employee, during such taxation year, and attributable to the eligible period of the eligible employee included in the taxation year of the employer.

In the case of an eligible employer that is a partnership, eligibility for the tax credit will be determined with reference to the partnership, but the tax credit will be granted to each member of the partnership, for its taxation year that includes an eligible period and in which the fiscal year of the partnership ends, on the basis of their respective shares of the income or loss of such partnership for such fiscal year.

• Eligible period

The "eligible period" of an eligible employee, regarding an eligible employer, means the period during which the employee qualifies as an eligible employee of such eligible employer, but not exceeding 52 weeks.

For greater clarity, such eligible period may begin in a given taxation year of an eligible employer and end in the next taxation year.

Accordingly, by way of illustration, in the case of an eligible employee who occupies two eligible jobs, the first for 20 weeks and the second for 60 weeks respectively, the first eligible employer may claim the tax credit for 20 weeks and the second eligible employer only for 52 weeks.

• Eligible salaries

"Eligible salaries" means the salaries calculated according to the *Taxation Act* and incurred for an eligible employee, in relation to an eligible period of such employee.

Furthermore, the amount of eligible salaries regarding which a tax credit may be granted to an eligible employer, for the eligible period of an eligible employee regarding such eligible employer, will be limited to $40 000, calculated on an annual basis. The maximum amount of the tax credit the eligible employer may thus receive, regarding that same period, may therefore not exceed $8 000 as a result of the 20% rate of the tax credit.

In addition, the salaries must have been paid at the time the tax credit is claimed from the ministère du Revenu du Québec (MRQ).

- **Reduction in the amount of salary incurred for eligible employees**

The total amount of salary incurred for an eligible employee by an eligible employer, for an eligible period of such employee, must be reduced by the amount of any government assistance, any non-government assistance and any profit or gain, according to the usual rules.

Furthermore, such total amount does not include an amount regarding which another refundable tax credit has been granted and, for greater clarity, an eligible employer may not receive both the tax credit for processing activities in the resource regions and the tax credit for hiring new graduates in remote resource regions regarding the same amount.

❑ Other application details

If a wage expenditure for which a tax credit has been granted is refunded to the eligible employer, the tax credit thus granted will be recaptured by means of a special tax.

In addition, such tax credit may, according to the usual rules, be applied against any instalment payments that must be made by an eligible employer for income tax and the tax on capital.

❑ Integrity of the tax credit

To ensure the integrity of the tax credit, rules will be introduced to govern the transfer of eligible employees within a group of associated employers.

More specifically, the eligible period of an eligible employee, in the case where he or she holds two or more eligible jobs with eligible employers associated among themselves at a given time in the course of one of the eligible periods of such eligible employee with one of these eligible employers, will be limited to the first 52 weeks otherwise eligible.[10]

Similar rules will apply regarding the merger and winding-up of corporations, in order to consider the attributes of the corporations replaced in such operations. In addition, the continuation of a business previously carried on by another taxpayer, as well as the alienation of a business, will also be considered.

10 For greater clarity, the eligibility period of an eligible employee who occupies two or more eligible jobs with the same eligible employer is limited to the first 52 weeks otherwise eligible.

Three rules will be applied to determine whether employers are associated among themselves at a given time:

— employers that would be corporations associated with each other at such time for the purposes of the Taxation Act, if the rules in this regard applied only on a Québec basis, will be considered to be associated at such time for the purposes of the tax credit;

— an employer who is an individual other than a trust will be considered a corporation all of whose voting shares belong to the individual at the given time;

— an employer that is a partnership or a trust will be considered a corporation all of whose voting shares belong to the members of the partnership or to the income beneficiaries of the trust at the given time, in proportion to the distribution among them of the income or loss of the partnership or the trust for the fiscal year including the given time.

❑ Excluded employer

For the purposes of this tax credit, an "excluded employer" means an excluded individual or an excluded corporation.

An "excluded individual", for a taxation year, means a trust one of the beneficiaries of the capital or income of which is either an excluded corporation or a person that is tax-exempt for the taxation year.

An "excluded corporation", for a taxation year, means:

— a corporation that is tax-exempt for such taxation year;

— a Crown corporation or a wholly-controlled subsidiary of such corporation.

❑ Application date

This tax credit will apply regarding an eligible salary incurred after the day of the Budget Speech, for an eligible employee hired after that day.

2.1.2 Improvement of the tax credit for on-the-job training periods

The current tax system stipulates a refundable tax credit for on-the-job training periods that is designed to encourage businesses that contribute to the improvement of the skills of young people by means of tax assistance provided for students who complete a training period with such businesses.

Briefly, an eligible taxpayer or an eligible partnership, as the case may be, (eligible employer) can, under certain conditions, claim a refundable tax credit for an on-the-job training period when a student completes a training period within a business that it carries on in Québec. The rate of this tax credit is 40% when the eligible employer is a corporation and 20% in other cases.

To encourage employers that operate in remote resource regions to offer training courses to students and thus further promote the development of these regions, the maximum amount of the tax credit with regard to training periods completed there will be doubled.

More specifically, the ceiling on the eligible expenditure according to which the tax credit is calculated will be increased for students who complete a training course with a business in a remote resource region. The same will also apply to the maximum hourly rate of salary paid to an eligible trainee that can be considered for the purposes of the calculation of this expenditure.

❑ Eligible training period

Under existing rules, a training period qualifies for the purposes of the tax credit if it is a practical training period carried out by an eligible intern under the direction of an eligible supervisor.

In general, an eligible intern is:

a) an apprentice, within the meaning of the *Act respecting manpower vocational training and qualification*;

b) an individual enrolled as a full-time student in a secondary, college or university-level education program stipulating the completion of one or more training periods lasting a total of at least 140 hours during the program;

c) an individual enrolled in the apprenticeship scheme implemented under the *Act to foster the development of manpower training*;

d) an individual enrolled as a full-time student in a vocational or professional training program for the social and vocational integration of young people and stipulating the completion of one or more training periods lasting a total of at least 140 hours during the program.

Eligible training periods and eligible interns covered by the improvement in the tax credit for on-the-job training periods are those already stipulated for the purpose of this tax credit, provided such training periods are completed by such interns in an eligible region.

❑ Eligible expenditure regarding an intern

Briefly, the tax credit is calculated on the basis of the eligible expenditure regarding an eligible intern, which consists of the wages and salaries the intern received in the course of an eligible training period, and those an eligible supervisor received for the hours he or she devoted to overseeing the intern. However, such expenditure is limited in two ways, i.e. a weekly cap and a maximum hourly rate.

• Cap on the eligible expenditure

Under existing rules, the cap on the eligible expenditure that applies regarding an eligible intern is:

— $625 per week, if the eligible intern is an individual covered by paragraph c) or d) of the preceding definition of eligible intern;

— $500 per week in the case of any other eligible intern.

The tax legislation will be amended to raise the caps on eligible expenditure applicable to an eligible intern of an eligible employer who carries out an eligible training period, at a given time of a taxation year or a fiscal year, as the case may be, in an establishment of an eligible employer located in an eligible region.

Accordingly, in this case, the weekly caps on eligible expenditure that will apply regarding an eligible intern will be raised to $1 250 and $1 000 respectively, i.e. twice the current caps.

• Maximum hourly rate

For the purposes of calculating the tax credit, the maximum hourly rate for wages and salaries that an eligible employer may consider regarding an eligible intern is $15, though the actual hourly rate may exceed this amount.

The tax legislation will also be amended to raise, from $15 to $25, the maximum hourly rate for wages and salaries that an eligible employer may consider for the purposes of determining the tax credit regarding an eligible intern who carries out an eligible training period, at a given time of a taxation year or a fiscal year, as the case may be, in an establishment of an eligible employer located in an eligible region.

❑ Eligible regions

Eligible regions will consist of the territory in the following administrative regions and RCMs:

— Bas-Saint-Laurent (region 01);

— Saguenay–Lac-Saint-Jean (region 02);

— the Haut-Saint-Maurice RCM;

— the Mékinac RCM;

— Abitibi-Témiscamingue (region 08);

— Côte-Nord (region 09);

— Nord-du-Québec (region 10);

— Gaspésie–Îles-de-la-Madeleine (region 11);

— the Antoine-Labelle RCM;

— the Vallée-de-la-Gatineau RCM;

— the Pontiac RCM.

❑ Clarification and application date

For greater clarity, all the other parameters currently stipulated for the purposes of the tax credit for on-the-job training periods remain unchanged.

These changes will apply regarding an eligible expenditure incurred after the day of the Budget Speech, regarding an eligible training period beginning after that day.

2.2 Introduction of a temporary refundable tax credit for the construction of public access roads and bridges in forest areas

The forest industry is facing increasing demands in terms of sustainable development, especially regarding protected areas, wildlife management and the preservation of traditional aboriginal activities. Consequently, the forest road network must be expanded.

In this context, a temporary refundable tax credit for the construction of public access roads and bridges in forest areas will be implemented.

This fiscal measure will have a broader impact, because it will facilitate the access to the territory and resources for the public generally and for businesses that carry out activities in forest areas, in the mining and wildlife sectors in particular.

Accordingly, an eligible corporation that incurs eligible expenses regarding the construction of eligible access roads or bridges, during a taxation year, may henceforth claim a refundable tax credit, for such year, corresponding to 40% of the amount of such eligible expenses.

❑ Eligible corporation

In general, any corporation, other than an excluded corporation, that, during a taxation year, carries on a business in Québec, has an establishment here, and is a party to a timber supply and forest management agreement (TSFMA), a forest management agreement (FMA) or a forest management contract (FMC) reached with the ministère des Ressources naturelles (MRN), may, under certain conditions, claim the tax credit for such year.

A corporation, other than an excluded corporation, that, during a taxation year, carries on a business in Québec and has an establishment there through a partnership may also qualify as an eligible corporation for such taxation year if it is a member of such partnership during a fiscal year of the latter ending during such taxation year and if such partnership is a party, during such fiscal year, to a TSFMA, an FMA or an FMC reached with the MRN.

❑ Eligible access roads and bridges

The expression "eligible access road and bridge" means an access road or bridge in a forest area that an eligible corporation or a partnership of which it is a member constructs or has constructed and regarding which it has obtained an eligibility certificate from the MRN stating that it is a road that satisfies the following conditions or, in the case of a bridge, that the bridge is part of such road:

— its expected lifetime is greater than three years;

— it will be constructed on Québec public land;

— it will form a development road, or part of a development road, enabling timber harvesting on each side and from which extraction roads lead;

— it appears on an annual forest operations plan submitted to the MRN as part of a TSFMA, an FMA or an FMC to which the eligible corporation or the partnership of which it is a member, as the case may be, is a party.

The MRN will see that the work performed complies with what is shown in the annual forest operation plan to ensure that the access road or bridge does in fact satisfy the eligibility conditions. Accordingly, the MRN may, if need be, revoke the eligibility certificate initially issued.

❑ Eligible expenses

The expression "eligible expenses" of an eligible corporation, for a taxation year, means all the expenses it incurs, during such year, and directly attributable to the work listed in the following table regarding the construction of eligible access roads or bridges:

TABLE 1.1

WORK RELATING TO THE CONSTRUCTION OF ELIGIBLE ACCESS ROADS AND BRIDGES

	Roads		Bridges
–	Impact studies	–	Impact studies
–	Localization	–	Geotechnical studies
–	Plans and specifications	–	Localization
–	Clearing	–	Plans and specifications
–	Grubbing	–	Foundation unit
–	Preparation	–	Superstructure
–	Back-filling	–	Apron
–	Drilling and dynamiting	–	Approach dyke
–	Subbase course	–	Drilling and dynamiting
–	Snow removal	–	Signs
–	Signs	–	Supervision
–	Culverts		
–	Supervision		

For greater clarity, eligible expenses include only salaries attributable to the construction of eligible access roads and bridges, the cost of goods consumed in the course of construction of eligible access roads and bridges, as well as the portion of the cost of a contract attributable to the construction of eligible access roads and bridges. Accordingly, the costs associated with the allocation to such construction, by an eligible corporation of a resource belonging to it, such as a truck, are limited to the wage of the operator and the cost of the goods consumed, such as fuel, in the course of the use of such resource. The economic cost relating to the allocation of such resource, such as the depreciation of the truck, is not eligible since no expenses are incurred in relation to such item. The situation is different if the eligible corporation entrusts the completion of the work to another entity, even a related entity, since all the expenses paid by the eligible corporation, and directly attributable to the work indicated above, constitute expenses it incurred and as such may qualify as eligible expenses.

Moreover, the eligible expenses of an eligible corporation, for a taxation year also include its share of the eligible expenses incurred by a partnership of which it is a member during the fiscal year of such partnership ending in such taxation year. The share of eligible expenses incurred by a partnership during a fiscal year and attributable to an eligible corporation will depend on the share of the income or loss of such partnership attributable to it for such fiscal year.

Lastly, eligible expenses must be reduced by the amount of any government assistance, any non-government assistance and any profit or gain, according to the usual rules.

❑ Rate of the refundable tax credit

As indicated above, the rate of the tax credit an eligible corporation may claim is 40%.

❑ Other application details

If the eligible expenses for which a tax credit is granted are refunded to the eligible corporation or partnership of which it is a member, in whole or in part, the tax credit thus granted will be recaptured by means of a special tax.

This tax credit may be applied against any instalment payments that must be made by an eligible corporation, for income tax and the tax on capital, according to the usual rules.

An eligible corporation wishing to claim this tax credit, for a taxation year, must enclose with its tax return, for such year, a form prescribed by the MRQ together with a copy of the eligibility certificate issued by the MRN.

Lastly, the eligible expenses regarding which a tax credit is claimed, by an eligible corporation, must have been paid at the time the tax credit is claimed.

❑ Excluded corporation

An "excluded corporation", for a taxation year, means:

— a corporation that is tax-exempt for the year;

— a Crown corporation or a wholly-controlled subsidiary of such corporation.

❑ Period of eligibility of expenses

Expenses relating to the construction of eligible access roads and bridges must be incurred by a corporation or by a partnership, as the case may be:

— after the day of the Budget Speech and before January 1, 2006;

— after December 31, 2005 and before January 1, 2007 if:

  - they are incurred in accordance with what appears in an annual forest operation plan submitted to the MRN before January 1, 2006; and

  - construction of the eligible access road or bridge by the corporation or partnership, as the case may be, or for either of them, started before January 1, 2006.

2.3 Partial withdrawal of the limit on the deductibility of rebates paid by a cooperative

Currently, the tax legislation stipulates that the amount of the allowable deduction for a rebate, in calculating the income of a cooperative for a taxation year, is limited depending on the sales it achieved with its members. More specifically, a cooperative may not claim as a deduction for a rebate, for a taxation year, an amount greater than its income from its business with its members for such taxation year.

Furthermore, under the *Cooperatives Act*, the amount of surplus a Québec cooperative can attribute as a rebate, and deduct as such in calculating its income under the tax legislation, is limited depending on the amount of its business with its members.

As announced as part of the *Cooperatives Development Policy*, the Québec government intends to change this rule to enable cooperatives to make a partial attribution of residual surplus. However, this opening will be introduced pursuant to an approach that maintains a balance between an improved financial structure for the cooperative and a better financial return for members.

In order to give full effect to this change, the tax legislation will also be amended to allow, in the deduction of a cooperative's income, the deduction of the amount of residual surplus it has attributed as rebates.

More specifically, an eligible cooperative that, during a taxation year, attributes as an eligible surplus rebate an amount from its residual surplus may claim a deduction, in calculating its income for such taxation year, in the amount of the eligible surplus rebate thus attributed.

❑ Eligible cooperative

An "eligible cooperative", for a taxation year, means a cooperative that has obtained a certificate from the ministère des Finances, de l'Économie et de la Recherche (MFER), for such taxation year, according to which it satisfies all of the following requirements:

— it belongs, for such taxation year, to one of the following categories of cooperatives:

  - a worker cooperative;
  - a cooperative at least 90% of whose activities consist of manufacturing, processing or agricultural activities;
  - a cooperative at least 90% of whose activities consist in supplying goods or services that enable the persons who do business with the cooperative to earn business or property income;
  - a cooperative most of whose members carry on a farm business registered with the ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec (MAPAQ) as a farm operation, as understood for the purposes of the *Regulation respecting the registration of agricultural operations and the reimbursement of real estate taxes and compensations*;
  - a federation of cooperatives most of whose members are cooperatives mentioned above or persons carrying on a business registered with MAPAQ as a farm operation;
  - a confederation of federations of cooperatives most of whose members are federations mentioned above;

— its senior management is in Québec and at least half the salaries paid to its employees, in the course of its fiscal year ended prior to this taxation year were paid to employees of an establishment located in Québec;

— its reserve, at the end of the fiscal year ended before such taxation year, is positive.

For greater clarity, a cooperative that is not subject to the *Cooperatives Act* may be recognized as an eligible cooperative if it otherwise satisfies the eligibility conditions listed above.

❑ Eligible surplus rebate

For the purposes of this measure, an "eligible surplus rebate", for a taxation year, means a rebate attributed by an eligible cooperative in such year or within the twelve months following the end of such year, from its residual surplus for such taxation year.

However, the amount of a cooperative's eligible surplus rebate, for a taxation year, is limited to the amount obtained by multiplying the cooperative's residual surplus, for the year, by the value of business done with its members as a proportion of the value of all its business, during the year.

For greater clarity, a cooperative's residual surplus, for a taxation year, is the cooperative's surplus for such year, over the amount of the eligible rebate allowable as a deduction in calculating its income for such year, as otherwise established under the tax legislation.

For purposes of illustration, the following table gives the amount of the surplus rebate allowable as a deduction, in calculating a cooperative's income, for a taxation year in which the cooperative earns a surplus of $1 million:

TABLE 1.2

CALCULATION OF THE ELIGIBLE SURPLUS REBATE

–	Cooperative's surplus	$1 000 000
–	Percentage of business with members	60%
–	Residual surplus	$400 000
–	Rebate currently allowable as a deduction	$600 000
–	Additional amount allowable as a deduction as eligible surplus rebate, i.e.: $1 000 000 – $600 000 = $400 000 x 60%	$240 000
–	Total rebate allowable as a deduction	$840 000

Furthermore, the amount allowable as a deduction as eligible surplus rebate must, however, have been attributed as preferred units, pursuant to a decision of the cooperative's board of directors.

In addition, the preferred units issued as eligible surplus rebate must have the following characteristics:

— they are redeemable, according to their seniority date, at the decision of the board of directors, after a minimum of five years from their date of issue, except in the event of death, disability or retirement;

— in the event of winding-up, they are refundable after all other preferred units;

— they carry no right to a dividend.[11]

❑ Administrative rules regarding eligibility certificates

A cooperative must annually submit an eligibility certificate application to the MFER, no later than four months after the end of the taxation year for which it wishes to obtain such certificate. The application must be accompanied by the documents and information the MFER considers necessary for it to decide whether or not the eligibility criteria stated above are satisfied.

To claim the deduction for eligible surplus rebate, for a taxation year, an eligible cooperative must enclose with its tax return, for such taxation year, the eligibility certificate issued by the MFER.

Furthermore, the MFER may consult with the MRQ regarding the proportion of salaries paid by the cooperative to employees of an establishment located in Québec. For greater clarity, only the information needed by the MFER to determine the size of the Québec payroll will be forwarded by the MRQ, in order to maintain the otherwise confidential nature of the information obtained by the MRQ in the course of applying a tax law.

In addition, the MRQ may consult with the MFER to determine whether the preferred units attributed as eligible surplus rebate have the required characteristics.

❑ Revocation of an eligibility certificate

The MFER may revoke an annual eligibility certificate issued regarding a cooperative if the facts on which the issuing of the certificate was based, for a given taxation year, prove inaccurate or incomplete. The MFER will then provide the MRQ with a copy of the revoked annual eligibility certificate of the cooperative.

A cooperative whose annual eligibility certificate is revoked must pay a special tax to the MRQ equal to 10% of the amount of the eligible surplus rebate deducted in calculating the cooperative's income, for the taxation year for which the eligibility certificate initially issued was revoked. However, in such a case, the deduction as eligible surplus rebate the cooperative claimed in calculating its income, for such taxation year, will not be adjusted.

11 Under the sectoral legislation, the return on preferred units is called interest.

❑ Interaction with other measures

Recently, a measure allowing a deferral of taxation on rebates attributed to a member consisting of preferred units of an eligible cooperative was introduced, consisting of a deduction for eligible rebate allowed members of certain cooperatives.[12]

For greater clarity, the preferred units issued as a surplus rebate may also qualify as an eligible rebate for the purposes of the deduction for eligible rebate, if all the other conditions otherwise applicable are satisfied.

Furthermore, the Cooperative Investment Plan (CIP) generally enables a member or an employee of an eligible cooperative to obtain a deduction in respect of the cost of acquiring a share in the cooperative. This measure is intended to foster the growth of cooperatives by granting a tax benefit to members and employees who acquire the preferred shares issued by eligible cooperatives.

For greater clarity, preferred units issued as a surplus rebate will not qualify as an eligible investment for the purposes of the CIP.

❑ Application date

The deduction for eligible surplus rebate will be allowed regarding such rebate attributed after the date the bill amending the *Cooperatives Act* to authorize such attribution is assented to.

2.4 One-year extension of tax benefits relating to flow-through shares

The implementation of a refundable tax credit for resources was announced as part of the March 29, 2001 Budget Speech. This tax credit is a more direct assistance mechanism that will replace all the tax benefits relating to flow-through shares.

However, a transition period was stipulated to enable the industry to adapt to this new form of tax assistance. Accordingly, the rules announced in that Budget Speech stipulated that the flow-through share system could continue to be used for the rest of 2001. On September 14, 2001, this transition period was extended for an additional two years.[13]

However, it appears that even with this extension, the transition period may be too short, especially for junior companies, to allow a smooth transition to the new form of tax assistance.

12 Bulletin d'information 2002-2.

13 Bulletin d'information 2001-9.

Consequently, this transition period will be extended for an additional year.

More specifically, the flow-through share system may continue to be used until the end of 2004, before it is completely replaced by the new tax credit. Accordingly, Canadian exploration expenses and expenses relating to renewable energy and energy conservation in Canada, whether incurred inside or outside Québec, may, for calendar year 2004, continue to be foregone in favour of an investor under the flow-through share system.

Moreover, the additional 25% deduction a corporation may claim, under the *Taxation Act* and the *Mining Duties Act*, regarding certain exploration expenses incurred in Québec's Near North and Far North, will also be maintained for an additional year, and accordingly will be eliminated as of January 1, 2005. The expenses giving rise to this additional deduction may thus continue, for 2004, to be foregone in favour of an investor if such investor is a corporation and these exploration expenses are financed with flow-through shares. On the other hand, this additional deduction may no longer be claimed by the corporation that incurs eligible expenses if it claims the new tax credit.

For greater clarity, this one-year extension of the flow-through share system does not change the fact that only the corporation that incurs eligible expenses, either directly or through a partnership, may claim the new refundable tax credit.

Lastly, the tax incentives regarding exploration expenses incurred in Québec will also be extended for an additional year.

Accordingly, for taxation year 2004, individuals may continue to claim deductions equal to 125% or 175%, as the case may be, regarding oil and gas exploration expenses incurred in Québec prior to January 1, 2005 by exploration companies with no resource development profits, subject to the 12-month period stipulated in the tax legislation.

Similarly, the current rules allowing an individual to claim an additional deduction regarding certain issue expenses may continue to apply for taxation year 2004, if the shares to which such expenses relate are flow-through shares.

In addition, an individual who is not a trust may continue to benefit from the additional capital gains exemption in respect of certain resource properties, acquired no later than December 31, 2004, even if the property is alienated after that date.

2.5 Streamlining relating to an innovative project carried out in a designated site

Québec's tax legislation includes measures that favour businesses that carry out scientific research and experimental development (R&D) and other forms of innovation in certain activity sectors, in particular those associated with the knowledge-based economy. This applies to, for example, the measures relating to R&D and those relating to carrying out of eligible activities in certain designated sites.

Essentially, the fiscal measures relating to the carrying out of activities in certain designated sites are divided into two types: those relating to the carrying out of an innovative project and those relating to the carrying out of activities other than in the course of carrying out an innovative project (specified activities).

Briefly, the fiscal measures relating to the carrying out of an innovative project in a designated site enable a corporation that carries out an innovative project in the information and communications technology sector in an information technology development centre (CDTI) or in a new economy centre (CNE), or in the biotechnology sector in a biotechnology development centre (CDB), to receive a five-year tax holiday regarding income tax, the tax on capital and employer contributions to the Health Services Fund (HSF). Such a corporation may also receive refundable tax credits for salaries paid to eligible employees as well as for the acquisition or leasing of eligible specialized equipment. Furthermore, a foreign specialist employed by such a corporation may receive, for five years, an exemption from tax on his income from such employment.

Lastly, a corporation that carries out an innovative project in the biotechnology sector in a CDB may also claim a refundable tax credit regarding eligible rent expenses relating to short-term rental of eligible specialized installations.

Transition rules were stipulated as part of the gradual implementation of these fiscal measures.

In particular, these transition rules allow,[14] for a transition period, certain innovative projects that are in progress to be carried out in the appropriate designated site, namely a CDTI, a CNE or a CDB.

These rules are designed essentially to allow corporations to adapt, for a certain period following the implementation of each of these three types of sites, to the new tax assistance relating to carrying out an innovative project in such designated sites.

More specifically, such transitional rules allow the eligibility of innovative projects in progress but not advanced to such a degree that they produce revenue, whether such innovative projects began to be carried out before, on or after the day of the announcement of the application of these fiscal measures to the type of designated site concerned. In determining whether an innovative project in progress has advanced to such a degree that it produces revenue, government and non-government assistance is not be taken into consideration.

The application details of these transitional rules differ depending on whether the innovative project was carried out by a corporation for which it is the sole business, or by another person.

Accordingly, in the case where the innovative project is the sole business carried on by a corporation, these transitional rules enable such corporation to continue carrying out its project in the designated site concerned and to receive tax assistance relating to carrying out an innovative project in such a designated site.

However, if the innovative project was started by a person other than a corporation for which it is the sole business, these transitional rules enable the project to be continued in the designated site concerned by a new corporation, which may receive tax assistance relating to carrying out an innovative project in such a designated site.

Furthermore, it can happen that a corporation earns investment income before a certification application is submitted to Investissement Québec concerning its innovative project. This situation can occasionally be encountered in the information and communications technology field, but is more common in the biotechnology field.

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14 Other transition rules allow a corporation to claim tax benefits for the period preceding entry into a CDTI, a CNE or a CDB, when the innovative project begins outside such a site because of the non-availability of premises in the designated site in question. These rules, which are permanent, apply to all CDTIs, CNEs and CDBs and are designed to avoid unduly delaying an innovative project from starting simply because a building designated as CDTI, CNE or CDB cannot immediately accommodate the corporation that carries it out. The application details of these transition rules will not be repeated because they are not changed by the streamlining measures announced.

Note, however, that these transition rules are permanent and apply only when the innovative project begins to be carried out outside the designated site because of the non-availability of premises in such designated site.

In the latter field, it frequently happens that a corporation is formed with the objective of identifying and carrying out an innovative project. The identification of what subsequently may qualify as an innovative project may require the execution of considerable work, in particular R&D, and the work preceding the identification of an innovative project may extend over a period of many months, and even years.

In such a case, even if the corporation is not considered to earn income directly attributable to carrying out an innovative project, it often happens that the corporation earns income, interest for instance, on its surplus cash that must be used to finance its activities during its start-up period.

This situation has various consequences on a corporation's ability to benefit from the tax measures regarding the carrying out of an innovative project in a designated site.

Among other things, these consequences differ depending on whether the income earned on the surplus cash is considered incidental to the carrying out of the innovative project or attributable to a specified investment business. This is of course a question of fact whose answer depends on a number of factors.

Accordingly, if the income is considered incidental to the carrying out of the innovative project, it would be possible to state that the innovative project has advanced to such a degree that it produces revenue and, on that basis, the project could not be continued, even by a new corporation, in a designated site as an innovative project.

Assuming the income is considered attributable to a specified investment business, the innovative project would have to be continued by a new corporation because it would not be an innovative project that started to be carried out by a corporation for which it was the only business. In such a case, administrative and legal costs that could be significant for the corporation would result.

Furthermore, even without this constraint, it would be possible to argue that the corporation that had initiated the innovative project does not comply with the tax criteria contained in the *Taxation Act* in order to qualify as an "exempt corporation". This definition stipulates, among other things, that "all or substantially all of the corporation's activities in the year and in any preceding year consist in carrying on an eligible business". The definition of an eligible business specifically excludes a specified investment business. Accordingly, if the criterion of all or substantially all is not satisfied for a given year, the corporation cannot be an exempt corporation for such year and for all subsequent years.

In such a situation, since the risk concerns a year preceding the continuation of the project in a designated site, it is possible that the corporation that initiated the project may never benefit from the tax measures regarding the carrying out of an innovative project in a designated site.

As previously illustrated, the consequences stemming from the answer to the question concerning the nature of the income earned by a corporation (or by another person, as the case may be) on its surplus cash (i.e. incidental income or income from a specified investment business), extend far beyond just this question.

Accordingly, to better respond to the concerns of corporations that wish to benefit from the fiscal measures regarding the carrying out of an innovative project in a designated site, the eligibility conditions will be streamlined to better correspond to the situations of some of these corporations. More specifically, changes will be made both to current rules and to transition rules applicable to the carrying out of an innovative project in a designated site.

2.5.1 Change to current rules

A change will be made to the definition of "exempt corporation" applicable to a corporation that carries out an innovative project in a designated site. More specifically, the condition stipulating that "all or substantially all of the corporation's activities in the year and in any preceding year consist in carrying on an eligible business" will be withdrawn.

This change will apply as of the reference date applicable for each of the three types of designated sites.[15]

2.5.2 Changes to transition rules relating to projects in progress

As indicated above, these transition rules were initially designed to allow corporations to adapt, for a certain period following the announcement of the application of these fiscal measures to each of the three types of designated sites concerned, to this new tax assistance.

Briefly, these rules recognize the eligibility of innovative projects in progress but not advanced to such a degree that they produce revenue. To that end, government and non-government assistance is not included. These are the only exceptions stipulated.

15 The reference date of a corporation is, in the case of a corporation that carries out an innovative project, March 26, 1997 if the innovative project is carried out in a CDTI, March 10, 1999 if the innovative project is carried out in a CNE, and March 30, 2001 if the innovative project is carried out in a CDB.

An additional exception will be included to also exclude income earned by a person on its surplus cash, regardless of the fact that such income is considered incidental to the carrying out of the innovative project or attributable to the carrying on of a specified investment business.

Accordingly, such income will not prevent a corporation from continuing to carry out an innovative project in a designated site and to receive tax assistance relating to carrying out an innovative project in such a designated site if the innovative project in progress has not advanced to such a degree that it produces revenue, nor will it prevent a new corporation from carrying out in a designated site an innovative project that was started by a person other than a corporation that does not carry on another business.

Furthermore, as indicated above, the application details of the current transition rules differ depending on whether the innovative project was started by a corporation that does not carry on another business or by another person.

Accordingly, the application details of this streamlining measure will be different for each of these two situations.

❑ Terms and conditions applicable to innovative projects that begin to be carried out by a corporation that does not carry on another business

These rules were initially designed for the case where the innovative project was the only business carried on by the corporation, and enabled such corporation to continue carrying out its project in the designated site concerned and to receive tax assistance relating to carrying out an innovative project in such a designated site.

Because of the streamlining measure indicated above, the possibility of benefiting from these transition rules will be broadened. Accordingly, they will apply regardless of whether the income earned by the corporation on its surplus cash is considered attributable to the carrying on of a specified investment business or incidental to the carrying out of the innovative project.

Accordingly, these transition rules will apply to innovative projects that begin to be carried out by a corporation that does not carry on any other business other than the one relating to the carrying out of the innovative project and, if applicable, the specified investment business relating to the income earned by the corporation on its surplus cash.

- **Tax holiday**

A corporation that, at the time it submits an eligibility application to Investissement Québec regarding an innovative project, does not carry on another business, according to the criteria indicated above, may receive the five-year tax holiday beginning on the date indicated in the eligibility certificate issued by Investissement Québec, which date may obviously not be prior to the corporation's reference date.[16]

More specifically, with regard to income tax, the tax holiday will apply for the corporation's taxation year including the date indicated in the eligibility certificate issued by Investissement Québec, or the corporation's reference date if later, in proportion to the number of days of the taxation year that follow the applicable date, compared with the number of days of such taxation year.

Regarding the tax on capital, the tax holiday will apply for the corporation's taxation year including the date indicated in the eligibility certificate issued by Investissement Québec, or the corporation's reference date if later, in proportion to the number of days of the taxation year that follow the applicable date, compared with 365.

The exemption from employer contributions to the HSF will apply regarding the salaries paid as of the date indicated in the eligibility certificate issued by Investissement Québec, or as of the corporation's reference date if later.

- **Refundable tax credits**

The refundable tax credit on salaries will apply regarding salaries incurred as of the date indicated in the eligibility certificate issued by Investissement Québec, or as of the corporation's reference date if later, and paid to eligible employees.

The tax credit regarding eligible specialized equipment will apply to equipment acquired as of the date indicated in the eligibility certificate issued by Investissement Québec, or as of the corporation's reference date if later, as well as to rent paid for such equipment as of the date indicated in the eligibility certificate issued by Investissement Québec, or as of the corporation's reference date if later.

In no case may the tax credit for specialized equipment be claimed for assets acquired after the first three years of the tax holiday. Similarly, only rent incurred during the five years of the tax holiday and relating to assets for which the lease began after the reference date may enable a corporation to claim the tax credit for specialized equipment.

16 *Ibid.*

The tax credit for short-term rental of eligible specialized installations a corporation may claim that carries out an innovative project in the biotechnology sector in a CDB will apply to eligible specialized installations rented as of the date indicated in the eligibility certificate issued by Investissement Québec, or as of the corporation's reference date[17] if later. Furthermore, only rent incurred during the five years of the tax holiday may enable a corporation to claim this tax credit.

- **Tax holiday for foreign specialists**

Moreover, for greater clarity, a foreign specialist may also receive an eligibility certificate, according to the usual criteria. In particular, he or she must commence employment as a foreign specialist with the corporation during the period of the corporation's five-year tax holiday, i.e. no sooner than the date indicated in the eligibility certificate issued by Investissement Québec. Accordingly, no special treatment will be applied in such a case.

❑ Terms and conditions applicable to innovative projects that begin to be carried out by a person other than a corporation that does not carry on another business

These rules were initially designed for the case where the innovative project had been initiated by a person other than a corporation for which it is the sole business, and enabled a new corporation to continue the innovative project in the designated site concerned, which new corporation was able to receive tax assistance relating to carrying out an innovative project in such a designated site.

Because of the streamlining measures indicated above, the possibility of benefiting from these transition rules will be broadened. Accordingly, they will apply regardless of whether the income earned by such person on its surplus cash is considered incidental to the carrying out of the innovative project or attributable to the carrying on of a specified investment business. In other words, an innovative project started by a person other than a corporation that does not carry on another business will not be disqualified simply because the income earned by such person on its surplus cash is considered incidental to the carrying out of the innovative project. In such a case, the innovative project may be continued in the designated site concerned by a new corporation, which may receive tax assistance relating to carrying out an innovative project in such a designated site.

17 In the case of a corporation that carries out an innovative project in the biotechnology sector in a CDB, the reference date is March 30, 2001.

2.5.3 Application of the new transition rules relating to projects in progress

In view of the preceding changes, the transition rules that were initially temporary will now be permanent and will continue to apply even when the innovative project begins to be carried out outside a designated site, for a reason other than the non-availability of premises in such a site.

In addition, these transition rules regarding projects in progress will continue to be applicable even if the corporation that carries out the innovative project does not immediately continue to carry out the innovative project in the designated site because of the non-availability of premises there. In such a case, the corporation that carries out the innovative project must satisfy the required conditions to temporarily continue carrying out the innovative project outside the designated site, in particular, signing a commercial lease for premises there.

All these streamlining measures will apply as of the applicable reference date for each type of site covered by them.

2.6 Consolidation of certain responsibilities with Investissement Québec

Investissement Québec, formed in June 1998, has a mission to encourage investment in Québec, by positioning it as a centre of creativity and productivity, allowing companies that invest there to be competitive.

To that end, Investissement Québec:

— working with its partners, promotes Québec as a location for investment projects and carries out the appropriate prospecting activities;

— coordinates government actions in terms of reception of and support for investment projects and acts the key contact for companies in this regard;

— fosters, through advice and financial tools, business start-ups and development, especially for companies whose growth is tied to innovation and exports.

In addition, many fiscal measures are in part promoted and administered by Investissement Québec. This applies to, for example, the measures relating to carrying out an innovative project in a designated site and those relating to the carrying out of specified activities in a designated site.

Furthermore, the Bureau du commerce électronique is also responsible for part of the promotion and administration of certain fiscal measures. In the case of the Bureau du commerce électronique, these responsibilities are limited to two types of fiscal measures, namely those relating to carrying out eligible activities in E-Commerce Place and those relating to e-business activities carried out in certain designated sites.

Accordingly, to facilitate the promotion of these measures and simplify access to them for businesses, all the responsibilities currently assumed by the Bureau du commerce électronique will be transferred to Investissement Québec.

More specifically, as of April 1, 2003, Investissement Québec will be charged with the promotion of these fiscal measures, and with issuing the eligibility certificates required to benefit from these fiscal measures.

Accordingly, corporations wishing to obtain the eligibility certificates needed to benefit from these fiscal measures must, until March 31, 2003, send their application to the Bureau du commerce électronique and, thereafter, to Investissement Québec. Investissement Québec will complete the analysis of applications submitted to the Bureau du commerce électronique before April 1, 2003.

Lastly, in the case of fiscal measures relating to e-business activities carried out in certain designated sites, both the designation of premises located in the Montréal E-Commerce Zone and of premises located in the Centre national des nouvelles technologies de Québec (CNNTQ) will be made by Investissement Québec. Accordingly, this organization will ensure that the total floor space of designated premises does not exceed the limits that have been set.

2.7 Simplification of the refundable tax credit for corporations specializing in the production of multimedia titles

An initial refundable tax credit relative to the production of multimedia titles (general component) was introduced in the May 9, 1996 Budget Speech. In the March 31, 1998 Budget Speech, a second tax credit applying specifically to corporations whose activities consist essentially in producing such titles was introduced.

The main difference between these two tax credits lies in the fact that a corporation that wants to benefit from the general component must obtain the required certificates for each of the multimedia titles it produces, while a corporation that intends to claim the tax credit for specialized corporations must obtain the required certificates regarding all its activities. However, in either case, the certificates are issued by Investissement Québec.

Accordingly, in the case of the tax credit for specialized corporations, qualification of a multimedia title is the responsibility of Investissement Québec, on the one hand, with respect to the overall eligibility certificate issued to a corporation and, on the other, of the MRQ, with respect to the determination of the tax credit.

Because of this overlapping of responsibilities, the same analysis work is carried out by these two organizations. This situation needs to be corrected by transferring responsibility for the qualification of multimedia titles produced by a specialized corporation to Investissement Québec exclusively.

Accordingly, the definition of "eligible multimedia title" for the purposes of the tax credit for specialized corporations will be changed to include any multimedia title produced by a specialized corporation, other than a title that Investissement Québec has excluded. Accordingly, the MRQ will no longer have to qualify multimedia titles produced by a corporation that claims a tax credit for specialized corporations.

Lastly, since the MRQ must, in certain circumstances, refer to Investissement Québec for purposes of the eligibility of production work, a consultation power will be introduced.

2.7.1 Notion of eligible multimedia titles

For the purposes of the tax credit for specialized corporations, an eligible corporation, for a taxation year, means a corporation, other than an excluded corporation, that, during the year, has an establishment in Québec and carries on a multimedia titles business there. In addition, to claim the tax credit for a taxation year, the eligible corporation must hold a final certificate issued by Investissement Québec, for the year, certifying that all or almost all of its activities exercised in Québec consist in producing eligible multimedia titles.

Furthermore, an eligible multimedia title of an eligible corporation means a multimedia title regarding which Investissement Québec has issued a certificate for the purposes of the general component.

Lastly, the amount of the tax credit for an eligible corporation is determined depending on the eligible labour expenditure of the corporation, to which a percentage is applied that varies depending on the category of the multimedia titles mainly produced by corporation.[18] This information is shown on the final certificate issued by Investissement Québec.

Accordingly, since it is up to the MRQ to calculate the tax credit to which an eligible corporation is entitled, it must first determine the eligible labour expenditure of such corporation, which consists, briefly, of the salaries relating to eligible production work on eligible multimedia titles. In the final analysis, therefore, it is up to the MRQ to qualify the multimedia titles that the eligible corporation produces and, to that end, it may consult Investissement Québec. Accordingly, a power of consultation has been created to that effect.[19]

However, Investissement Québec must first have carried out an initial analysis of the multimedia titles produced by a corporation for the purpose of issuing a final certificate. In addition, the expertise needed to effectively carry out such an assessment is more likely to be found with Investissement Québec, because the qualification of multimedia titles is based on sectoral criteria rather than on standards of a fiscal nature.

For this reason, responsibility for the qualification of multimedia titles produced by a specialized corporation will be assigned to Investissement Québec exclusively.

More specifically, for the purposes of the tax credit for specialized corporations, an "eligible multimedia title" of an eligible corporation will mean an organized set of digital information of an eligible corporation regarding which Investissement Québec has issued a valid final certificate certifying that all or almost all of its activities exercised in Québec consist in producing eligible multimedia titles.

Furthermore, while the production of multimedia titles of the specialized corporation must consist essentially of eligible multimedia titles, it is possible that a small number of titles produced by the corporation may not qualify for the purposes of the general component, in particular because they encourage violence, sexism or discrimination.

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18 The rates of the tax credit are:

- 50% if the certificate certifies that at least 75% of the eligible multimedia titles produced by the corporation are intended to be commercialized without being made to order (category 1) and available in French, or that at least 75% of its gross income is earned from such titles;
- 40% if the certificate certifies that at least 75% of the eligible multimedia titles produced by the corporation are of category 1 only, or that at least 75% of its gross income is earned from such titles;
- 35% if the certificate certifies that less than 75% of the eligible multimedia titles produced by the corporation are of category 1, and that less than 75% of its gross income is earned from such titles.

19 Bulletin d'information 2002-13.

Simplification is no justification for such titles giving rise to the tax credit for specialized corporations. Investissement Québec must accordingly exclude each multimedia title it considers, on the basis of the usual criteria, not to be an eligible multimedia title and, to that end, identify it as an "excluded title" on the valid final certificate it issues regarding a corporation.

For greater clarity, all the other parameters currently stipulated for the purposes of this tax credit remain unchanged.

This change will apply regarding a taxation year of an eligible corporation ending after the day of the Budget Speech.

2.7.2 Power of consultation

For the purposes of the general component and the tax credit for specialized corporations, the MRQ is responsible for determining whether the production work constitutes eligible production work.

Furthermore, eligible production work in relation to an eligible multimedia title means the work done to carry out the stages of the production of such title, including activities relating to writing the screenplay of the title, the formulation of its interactive structure, the acquisition and production of its constituent elements and its computer development. Investissement Québec is better positioned to assess these activities, having already analyzed them for the qualification of the multimedia title. The MRQ must accordingly be in a position to obtain from Investissement Québec the information needed for the determination of eligible production work.

Consequently, the MRQ may consult Investissement Québec to learn whether given activities constitute eligible production work, for the purposes of the general component and the tax credit for specialized corporations. For greater clarity, only the information needed to obtain an opinion from Investissement Québec will be forwarded by the MRQ, in order to maintain the otherwise confidential nature of the information obtained by the MRQ in the course of applying a tax law.

This change will apply as of the day of the Budget Speech.

2.8 Adjustments to the five-year tax holidays granted to certain foreign employees

Briefly, an individual who is not a resident of Canada, and who comes to Québec to work in certain specialized sectors, can receive a tax holiday on his or her salary or all his or her income, as the case may be, for a period of five years.

For instance, foreign specialists who come to Québec to hold a job with an employer who carries on a business in the Cité du multimédia, E-Commerce Place or the Montréal Foreign Trade Zone at Mirabel enjoy such a tax holiday.

In this regard, all the tax holidays granted to foreign employees are subject to an eligibility condition, i.e. that foreign employees must not have resided in Canada immediately prior to either concluding their employment contract or taking up their duties.

In addition, for an individual to be able to benefit from such a tax holiday, an attestation or an eligibility certificate must be issued in his or her regard by a sectoral organization that has expertise in the sector covered by the tax holiday regarding which it issues an attestation or eligibility certificate.

For instance, in the case of the tax holiday for a foreign researcher in the field of R&D, the MFER issues an eligibility certificate regarding an individual who applies for the tax holiday, in which it certifies that such individual is specialized in the field of pure or applied science or in a related field, and that he or she holds a master's degree recognized by a Québec university or equivalent knowledge.

2.8.1 Presumption of residence in Québec because of a stay of 183 days or more

The tax legislation stipulates that an individual, who ordinarily does not reside in Canada, is deemed to reside in Québec throughout an entire taxation year if, during such year, his or her stays there during one or more periods total at least 183 days.

This presumption of residence does not apply to a foreign individual who, during a year, begins to reside ordinarily in Canada at any time during such year.

Furthermore, the fiscal policy relating to tax holidays granted to foreign employees is designed to enable Québec-based companies to recruit specialized employees more easily. The assumption underlying this policy is that the foreign individual will settle in Québec permanently to hold a job there.

Accordingly, in situations where a foreign individual who stayed in Québec for 183 days or more during a year, for instance to engage in university studies, and commences employment with an eligible employer, in such year, though without beginning to reside ordinarily in Canada, this presumption of residence would result in such individual being deemed to reside in Québec since the beginning of such year, and he or she would be unable to benefit from any tax holiday for foreign employees.

In this context, so to achieve the objective of the tax holidays encouraging the recruitment of foreign employees, the tax legislation will be amended so that similar tax treatment is afforded in all situations where a foreign individual comes to Québec to hold a job with an eligible employer.

More specifically, the tax legislation will be amended so that, for the purposes of the tax holidays granted to foreign employees, the presumption that an individual is deemed to reside in Québec for an entire taxation year if, during such year, he or she stayed for one or more periods totalling 183 days or more, will not apply.

This change will apply as of taxation year 2003.

2.8.2 Roles of the ministère du Revenu and sectoral organizations concerning the administration of eligibility conditions

The eligibility conditions for the purposes of all the tax holidays granted to foreign employees are administered in part by the MRQ, and in part by a sectoral organization with expertise in the sector covered by the tax holiday regarding which it issues an attestation or an eligibility certificate.

In general, the intervention of a sectoral organization is required to verify the skills of the foreign individual claiming a tax holiday, and to check that the duties of such individual with an eligible employer are carried out in a certain proportion in specific sectors. In the latter regard, the intervention of the sectoral organization is required each year.

The MRQ must in particular verify that such individual did not reside in Canada immediately prior to concluding the contract or immediately prior to commencing work, and it must check that such individual acts as an employee with such employer, almost exclusively and continuously as far as most tax holidays are concerned.

In this context, the respective roles of the MRQ and sectoral organizations must be well defined so that their interventions do not overlap.

❑ Tax holiday for foreign researchers in postdoctoral fellowships

In the March 31, 1998 Budget Speech, a five-year income tax holiday was announced for an individual who is a foreign researcher who comes to Québec to be hired, as a postdoctoral fellow, by an eligible university entity or an eligible public research centre.[20] To receive this tax holiday, an individual must work almost exclusively for the eligible employer who hired him or her and he or she must carry out almost exclusively R&D work in the course of his or her duties.

This tax holiday is an exception to fiscal policy, which generally stipulates that a foreign researcher who comes to Québec to work can receive a tax holiday only if he or she is hired by an employer, other than an eligible university entity or an eligible public research centre, that carries on a business.

Accordingly, only a postdoctoral fellow hired by an eligible university entity or an eligible public research centre can claim this tax holiday.

In this regard, the ministère de l'Éducation du Québec (MEQ), which is the sectoral organization charged with issuing eligibility certificates for the purposes of this tax holiday, issues an eligibility certificate regarding an individual only if the latter is hired by an eligible employer in the course of a postdoctoral fellowship.

Such a eligibility certificate is initially issued by the MEQ regarding an individual who uses the certificate for the entire length of the tax holiday.

To ensure that this tax holiday is granted solely in situations in which, during a year, researcher duties with an eligible employer are carried out as a postdoctoral fellow, the tax legislation will be changed to replace the initial certificate issued regarding an individual by the MEQ with an annual attestation, in which the ministry certifies the skills of the individual and that the individual's duties with the eligible employer were devoted, during such year, almost exclusively to acting as a postdoctoral fellow.

More particularly, the eligibility conditions of the tax holiday for a foreign researcher in a postdoctoral fellowship will be changed so that, for a taxation year, the employer of an individual who claims this tax holiday for such year is required to obtain from the Minister of Education, after applying to him in writing no later than the last day of February of the following calendar year, an attestation certifying that the individual is specialized in the field of pure or applied science or in a related field, that as such he or she holds a doctoral degree and acts with the employer, during such year, almost exclusively as a researcher in the course of a postdoctoral fellowship.

20 An eligible university entity or an eligible public research centre for the purposes of refundable tax credits for R&D.

For greater clarity, since the MRQ has the expertise required to verify whether the duties of a postdoctoral fellow with an eligible employer were devoted, during a year, almost exclusively to carrying out R&D, the MRQ will be responsible for administering this eligibility condition.

This change will apply as of taxation year 2003.

❑ Tax holiday for foreign professor

On June 29, 2000, a five-year income tax holiday was announced for a foreign individual who comes to Québec to be hired as a professor by a Québec university.[21] To receive this tax holiday, an individual must work almost exclusively and continuously for the Québec university that hired him or her and he or she must carry out almost exclusively work in the course of his or her duties in the following disciplines: science and engineering, finance, health and new information technologies.

This tax holiday, like the tax holiday for foreign researcher in a postdoctoral fellowship, is an exception to fiscal policy, and here again the MEQ is responsible for issuing eligibility certificates.

In the same vein, the MEQ initially issues an eligibility certificate regarding an individual only if he or she is hired as a professor by a Québec university, and the individual uses the certificate for the entire length of the tax holiday.

However, unlike the tax holiday for a foreign researcher in a postdoctoral fellowship, regarding which the MRQ has the expertise to verify whether the duties of a postdoctoral fellow consist almost exclusively in carrying out R&D work, in the case of the tax holiday for a foreign professor, it should instead be the responsibility of the MEQ, in view of its mission, to verify whether an individual has acted, during a year, almost exclusively as a professor in the field of science and engineering, finance, health or new information and communications technologies.

In this context, the tax legislation will be amended so that the MRQ will no longer be responsible for carrying out this verification, but instead the MEQ will be responsible for ensuring that this tax holiday is granted solely in situations in which, during a year, the duties of an individual with a Québec university are carried out as a professor in specific sectors. Accordingly, the initial certificate issued regarding an individual by the MEQ will be replaced with an annual attestation, in which the ministry certifies the skills of the individual and that the individual's duties with a Québec university were devoted, during such year, almost exclusively to acting as a professor in specific sectors.

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More particularly, the eligibility conditions of the tax holiday for foreign professor will be changed so that, for a taxation year, the Québec university that employs an individual who claims this tax holiday for such year is required to obtain from the Minister of Education, after applying to him in writing no later than the last day of February of the following calendar year, an attestation certifying that the individual is specialized in the field of science and engineering, finance, health or new information and communications technologies, that as such he or she holds a doctoral degree and acts with such Québec university, during such year, almost exclusively as a professor in the field of science and engineering, finance, health or new information and communications technologies.

For greater clarity, the MRQ, not the MEQ, will continue to be responsible for verifying in particular that such individual acts almost exclusively and continuously as an employee with the Québec university that employs him or her.

These changes will apply as of taxation year 2003.

❑ Other tax holidays granted to foreign employees

Like the amendments that will be made to the tax legislation concerning tax holidays for foreign researchers in a postdoctoral fellowship and for foreign professors, changes will be made to the tax legislation concerning the other tax holidays for foreign employees, to ensure that the respective roles of the MRQ and sectoral organizations do not overlap in relation to the eligibility conditions for the purposes of these tax holidays.

For each tax holiday granted to foreign employees, with the exception of the tax holidays for foreign researchers and for foreign experts in the field of R&D, the tax legislation will be amended, if applicable, so that the MRQ is no longer responsible for verifying if the duties of an individual with an eligible employer are attributable in a certain proportion to specific activities.

The situation of tax holidays for foreign researchers and for foreign experts in the field of R&D is special, since in this case, the MRQ has the expertise to determine whether activities qualify as R&D. Consequently, the MRQ will continue to be responsible for determining whether the duties of an individual consist almost exclusively in R&D work for the purposes of these two tax holidays.

In addition, the tax legislation will be amended so that the sectoral organization concerned is responsible for verifying whether the duties of an individual with an eligible employer are attributable in a certain proportion to specific activities. Such organization must also certify in the attestation it issues regarding a foreign employee, for a year, that the latter acted with the eligible employer, during such year, in a certain proportion in duties in a specific sector.

For instance, in the case of the tax holiday for a foreign specialist hired by an employer who carries on a business in the Cité du multimédia, the tax legislation will be amended so that the MRQ will no longer be responsible for verifying whether the individual's duties with the employer are almost exclusively attributable to eligible activities of the employer.

As a corollary to this amendment, the eligibility conditions of this tax holiday will be changed so that Investissement Québec certifies in the eligibility certificate it issues regarding the individual for a taxation year, in addition to the items already stipulated in the tax legislation, that the individual's duties with the employer, during such year, were devoted almost exclusively to eligible activities of the employer.

These changes will apply as of taxation year 2003.

❑ Clarifications

For greater clarity, the changes described above have no effect on the possibility that the MRQ may provide the sectoral organization concerned with all the information available to it in relation to the duties that were carried out by a foreign employee with an eligible employer. If applicable, the sectoral organization may revoke the eligibility certificate it issued regarding a foreign employee if it considers that the nature of the duties carried out by such employee is inadequate for the purposes of the tax holiday claimed by such employee.

In such circumstances, the MRQ may, under the existing rules, issue a new assessment, if applicable, denying the tax holiday claimed by such employee.

2.9 Eligibility of certain corporations that do not pay tax for various tax incentives

The tax legislation stipulates various tax incentives to encourage corporations to develop certain sectors. In general, Québec's tax incentives consist of a refundable tax credit, or a tax holiday from income tax, the tax on capital and employer contributions to the HSF.

The tax legislation also stipulates that some corporations can benefit from a tax exemption (exempt corporation). In particular, this applies to Crown corporations. Usually, an exempt corporation enjoys an exemption from income tax and the tax on capital.

The tax legislation stipulates further that some corporations can receive advantageous tax treatment. In particular, this applies to a corporation governed by legislation constituting a labour fund. Such a corporation enjoys a tax exemption regarding income tax and individuals investing therein can claim a tax credit.

In view of the advantage a corporation derives from exempt corporation status or from its status as a corporation governed by legislation constituting a labour fund, fiscal policy in respect of such corporations sometimes limits the eligibility of such corporations for various Québec tax incentives. However, the restrictions applicable to such corporations are not uniform.

To better harmonize the restrictions applicable to exempt corporations and those applicable to corporations governed by legislation constituting a labour fund, with regard to the eligibility of such corporations for various Québec tax incentives, changes will be made to the tax legislation.

2.9.1 Exempt corporations

The objective of a specific refundable tax credit usually determines whether or not it is desirable that an exempt corporation can benefit from it. In some situations, the eligibility of such a corporation for a specific refundable tax credit may be appropriate, while that may not be the case regarding another refundable tax credit.

Mainly for this reason, the rules of each refundable tax credit specifically stipulate whether or not an exempt corporation is eligible for the specific refundable tax credit and a general rule in this regard is not appropriate.

However, the situation is different regarding tax exemptions or tax holidays. Since these measures are designed primarily to reduce the tax burden of corporations in certain specific circumstances, the eligibility of an exempt corporation for such measures, in order to further extend the tax exemption it already enjoys, does not appear appropriate *a priori*.

That is why fiscal policy regarding such corporations does not authorize their eligibility for tax exemption or tax holiday incentives.

Although fiscal policy in this regard is long-standing, the lack of a general rule to this effect in the tax legislation, together with the case-by-case approach described above regarding refundable tax credits, gives room for a degree of ambiguity as to an exempt corporation's eligibility for tax exemption or tax holiday incentives.

To remove all ambiguity in this regard, the tax legislation will be amended to introduce a general rule regarding the ineligibility of such corporations for these Québec tax incentives.

More specifically, the legislation will be amended to introduce a general application rule stipulating the ineligibility of an exempt corporation for any tax exemption or tax holiday incentive measure.

The application of this amendment will be declaratory.

2.9.2 Corporations governed by an act constituting a labour fund

As mentioned above, a corporation governed by legislation constituting a labour fund, as well as individuals who invest therein, enjoy advantageous tax treatment, namely a tax exemption in respect of income tax for the corporation and a tax credit for the individuals.

In view of the tax benefits corporations governed by legislation constituting a labour fund thus enjoy, various restrictions apply to the eligibility of such corporations for Québec tax incentives. However, these restrictions are not uniform. Accordingly, to better harmonize the restrictions applicable to corporations governed by legislation constituting a labour fund, the tax legislation will be amended.

More specifically, the tax legislation will be amended to introduce a general application rule stipulating the ineligibility of a corporation governed by legislation constituting a labour fund, for any tax exemption or tax holiday incentive measure as well as for any refundable tax credit stipulated by the tax system, other than such a tax exemption or tax holiday measure specifically stipulating the eligibility of such a corporation.

This amendment will apply, in respect of the ineligibility of such corporation for a tax exemption or tax holiday incentive measure, regarding a taxation year of such corporation beginning after the day of the Budget Speech and, in respect of the ineligibility of such corporation for a refundable tax credit stipulated by the tax system, regarding an expenditure incurred after the day of the Budget Speech.

2.10 Clarification concerning international financial centres

Québec's tax legislation contains several measures designed to promote the growth of Québec's financial sector. These measures relate in particular to the conducting of international financial transactions through international financial centres (IFC).

The principal IFC-related tax benefits stipulated in the legislation include a tax exemption and various refundable tax credits for the operator of an IFC, and a partial or full income tax exemption for employees.

Briefly, an IFC is a business or part of a business established in Montréal all of whose activities pertain to qualified international financial transactions (QIFT).

Under existing legislation, the Minister of Finance, the Economy and Research must, in particular, annually issue to an operator of an IFC an eligibility certificate according to which, in her view, the activities of the business or part of a business of the operator of an IFC concerned QIFTs. In addition, the Minister of Revenue must identify the portion of the income of the operator of an IFC that relates to QIFTs.

This situation could cause harm to the operator of an IFC that acted in good faith when some of the activities of the business were covered by a certificate from the Minister of Finance, the Economy and Research, thereby giving the impression that the transactions underlying such activities were QIFTs, and, in the course of a subsequent audit, the Minister of Revenue is of the view that the transactions in question are not QIFTs for the purposes of the calculation of the income of the operator of an IFC.

Accordingly, a clarification will be made, applicable both for the past and the future, to ensure that the Minister of Revenue may not disqualify a given transaction as a QIFT when such given transaction is covered by a certificate issued by the Minister of Finance, the Economy and Research.

2.11 Tightening measures to ensure a portion of the funding of the new Québec film and audiovisual production policy

For many years, the government has supported the development of Québec's film and television industry, notably by means of refundable tax credits, and the fiscal policy underlying these tax credits is based mainly on the principles and objectives of the film policy formulated by the Minister of Culture and Communications.

The updating of the film policy, leading to the tabling of the new *Québec policy on film and audiovisual production*, is supported by the film and audiovisual production community as well as by organizations, associations and individuals who took part in the public consultation held on the matter in the fall of 2002.

To ensure that the initiatives proposed as part of the Québec's new film and audiovisual production policy are consistent with the achievement of a balanced budget, and at the request of the Minister of Culture and Communications, changes will be made to tighten the tax credit for Québec film and television production.

2.11.1 Decrease in the rate of the cap based on production expenses

The tax credit for Québec film or television production covers labour expenditures incurred in the course of production of a Québec film, as this expression is understood in the *Regulation respecting the recognition of film as Québec films* (Regulation).

This tax credit generally corresponds to 33 ⅓% of eligible labour expenditures incurred to produce the film. In addition, the labour expenditures giving rise to this tax credit may not exceed 50% of the production expenses of the film, so that the tax assistance currently may not exceed 16 ⅔% of such expenses.

However, for the purposes of this tax credit, more assistance is provided regarding labour expenditures relating to the production of certain French-language feature films, certain documentaries and giant-screen films, so that the tax assistance in this regard may reach 22 ½% of the production expenses of such films.

In addition, productions including computer animation or special effects, excluding French-language feature films, certain documentaries and giant-screen films, may also obtain additional tax assistance.

Lastly, to encourage the production of films and television shows that reflect the many regional realities of Québec, and to help producers established outside the Montréal region, specific assistance is provided for such producers if the film is produced outside the Montréal region. In the case of a regional production, tax assistance may reach 27 ¾% of the production expenses of the film.

In all cases, this tax credit may not exceed $2.5 million per film.

The following table illustrates the various rates of the refundable tax credit for Québec film and television production.

TABLE 1.3

REFUNDABLE TAX CREDIT FOR QUÉBEC FILM AND TELEVISION PRODUCTION
(Per cent)

	Basic rate	Minimum effective rate[1]	Increase for special effects and computer animation	Increase for regional production	Total	Cap on labour expenditures	Maximum effective rate[1]
	(as a % of labour expenditures)					(as a % of production costs)	
French-language feature film and unique documentary	45	22 ½	—	10 ½	55 ½	50	27 ¾[2]
Giant screen	45	22 ½	—	10 ½	55 ½	50	27 ¾[2]
Other production	33 ⅓	16 ⅔	11 ⅔	10 ½	55 ½	50	27 ¾[3]

1 The effective rate is obtained by multiplying the nominal rate of the tax credit, expressed as a function of labour expenditures, by the rate of the cap, expressed as a function of production costs.

2 For the purposes of determining the maximum assistance, it is assumed that the labour expenditures that give rise to the basic rate also give rise to the additional rate for the regional increase.

3 For the purposes of determining the maximum assistance, it is assumed that the labour expenditures that give rise to the basic rate also give rise to the additional rates for the execution of special effects or computer animation and for the regional increase.

The tax legislation will be amended to lower the rate of the cap on labour expenditures based on the production expenses of a Québec film. Accordingly, the rate of this cap will be reduced to 45%.

Consequently, the rates of the refundable tax credit for Québec film and television production will henceforth be as shown in the following table.

TABLE 1.4

REFUNDABLE TAX CREDIT FOR QUÉBEC FILM AND TELEVISION PRODUCTION
(Per cent)

	Basic rate	Minimum effective rate[1]	Increase for special effects and computer animation	Increase for regional production	Total	Cap on labour expenditures	Maximum effective rate[1]
	(as a % of labour expenditures)					(as a % of production costs)	
French-language feature film and unique documentary	45	20 ¼	—	10 ½	55 ½	45	25[2]
Giant screen	45	20 ¼	—	10 ½	55 ½	45	25[2]
Other production	33 ⅓	15	11 ⅔	10 ½	55 ½	45	25[3]

1 The effective rate is obtained by multiplying the nominal rate of the tax credit, expressed as a function of labour expenditures, by the rate of the cap, expressed as a function of production costs. For illustration purposes, the amount thus obtained is rounded at times.

2 For the purposes of determining the maximum assistance, it is assumed that the labour expenditures that give rise to the basic rate also give rise to the additional rate for the regional increase.

3 For the purposes of determining the maximum assistance, it is assumed that the labour expenditures that give rise to the basic rate also give rise to the additional rates for the execution of special effects or computer animation and for the regional increase.

This change will apply in relation to a film or television production regarding which an application for an advance ruling, or a final certification application if no application for an advance ruling was previously filed regarding such production, is filed with Société de développement des entreprises culturelles (SODEC) after April 30, 2003.

It will also apply regarding a film or television production, even if an application for an advance ruling is filed with SODEC before May 1, 2003, if SODEC considers that the work on such production was not sufficiently advanced on the day of the Budget Speech.

However, in the specific case of a series, this change will not apply regarding an episode or a show that is part of a series, if an application for an advance ruling, or a final certification application if no application for an advance ruling was previously filed, is filed with SODEC before May 1, 2003, regarding an episode or a show that is part of such series, and if SODEC considers that the work on the production of an episode or a show of such series was sufficiently advanced on the day of the Budget Speech.

2.11.2 Changes to Québec film certification criteria

For a production to be recognized as a Québec film for the purposes of the tax credit for Québec film and television production, the Regulation stipulates that it must satisfy criteria concerning in particular the type of production, the persons who occupy certain specific creative positions and the percentage of the production expenses incurred in Québec. Currently, variety shows and television magazine shows that satisfy certain criteria as to form, content and time of broadcast are productions that may be recognized as a Québec film.

❑ Stricter eligibility criteria for variety shows and television magazine shows on the basis of the broadcast schedule

Briefly, variety and magazine-type television shows that satisfy the form and content criteria stipulated in the Regulation are eligible shows for the purposes of the tax credit for Québec film and television production if they are broadcast during prime time, i.e. in the case of a show broadcast from Monday to Friday, between 6 p.m. and midnight and, in the case of a show broadcast on Saturday or Sunday, between 9 a.m. and midnight.

The Regulation will be amended to stipulate that only a variety show broadcast between 7 p.m. and 11 p.m. can be recognized as a Québec film regardless of the day it is broadcast.

In addition, the Regulation will be amended to stipulate that a television magazine must be broadcast between 6 p.m. and 10 p.m. regardless of the day it is broadcast, to be recognized as a Québec film.

For greater clarity, these changes will not apply to variety shows and television magazines intended for children under 13. Furthermore, they will not affect the content and form criteria otherwise applicable to a variety show and a television magazine.

These changes will apply in relation to a film or television production regarding which an application for an advance ruling, or a final certification application if no application for an advance ruling was previously filed with regard to such production, is filed with SODEC after April 30, 2003.

They will also apply regarding a film or television production, even if an application for an advance ruling is filed with SODEC before May 1, 2003, if SODEC considers that the work on such production was not sufficiently advanced on the day of the Budget Speech.

However, in the specific case of a series, these changes will not apply regarding an episode or a show that is part of a series, if an application for an advance ruling, or a final certification application if no application for an advance ruling was previously filed, is filed with SODEC before May 1, 2003, regarding an episode or a show that is part of such series, and if SODEC considers that the work on the production of an episode or a show of such series was sufficiently advanced on the day of the Budget Speech.

❑ Introduction of a new requirement for original productions in a language other than French

Besides the Québec content standards, the Regulation also stipulates that the application for recognition of a production must be accompanied by an undertaking from a broadcaster whereby the production will be distributed in Québec, or an undertaking from the holder of a distribution license whereby the production will be shown in theatres in Québec.

The purpose of this regulatory requirement is to ensure that any production benefiting from the tax credit for Québec film and television production can be seen by audiences in Québec, whether in a theatre or on television.

The requirement regarding distribution in Québec is not restrictive as to the language in which such distribution must be carried out. For example, an English-language production can be presented by an English-language broadcaster and nevertheless satisfy the regulatory requirement relative to Québec distribution.

Some original productions in a language other than French can be dubbed and distributed in French in Québec. In that specific case, the regulations currently do not require that such dubbing be carried out by an entity that carries on a dubbing business in Québec.

To support the dubbing industry in Québec, not only through the refundable tax credit for film dubbing but also the refundable tax credit for Québec film and television production, the Regulation will be amended.

Henceforth, when an application for an advance ruling or final certification of an original production in a language other than French is accompanied by an undertaking by a broadcaster that the production will be distributed in French in Québec, or an undertaking by the holder of a distribution license that the production will be shown in French in theatres in Québec, the French dubbing of the production for which the application is filed must be carried out in Québec.

However, this new requirement will not apply in the case of an international coproduction involving a country of the Francophonie, if the foreign coproducer is responsible, under the official coproduction agreement, for completing an original French version.

Furthermore, SODEC may revoke the favourable advance ruling or final certification issued regarding an original production in a language other than French if such production is subsequently distributed in French, in Québec, in a version dubbed outside Québec, and if SODEC is of the view that such distribution was contemplated or foreseeable at the time the application for an advance ruling or final certification regarding such production was filed. However, this power of revocation will be limited to a period of three years following the date on which the final certification application regarding such production is filed with SODEC.

This change will apply to a film or television production regarding which an application for an advance ruling, or a final certification application if no application for an advance ruling was previously filed regarding such production, is filed with SODEC after April 30, 2003.

It will also apply regarding a film or television production, even if an application for an advance ruling is filed with SODEC before May 1, 2003, if SODEC considers that the work on such production was not sufficiently advanced on the day of the Budget Speech.

However, in the specific case of a series, this change will not apply regarding an episode or a show that is part of a series, if an application for an advance ruling, or a final certification application if no application for an advance ruling was previously filed, is filed with SODEC before May 1, 2003, regarding an episode or a show that is part of such series, and if SODEC considers that the work on the production of an episode or a show of such series is sufficiently advanced on the day of the Budget Speech.

2.11.3 Changes stemming from the end of the period of eligibility of private broadcasters for tax credits for film production

The refundable tax credit for Québec film and television production was introduced on December 19, 1990.[22] Initially, access to this tax credit was limited to independent producers, i.e. corporations at arm's length with a corporation holding a broadcast license issued by the Canadian Radio-television and Telecommunications Commission (broadcaster).

In June 1998, eligibility for this tax credit and the tax credit for film production services was granted to broadcasters, for a period of five years.[23] Accordingly, an eligible production made by a broadcaster or by a corporation controlled directly or indirectly, in any way whatsoever, by a broadcaster, currently gives rise to a tax credit for Québec film and television production, subject to the application of an annual production cap and a requirement to reinvest in French-language Québec film.

22 Bulletin d'information 90-7.

23 Bulletin d'information 98-3.

At the same time, an exception was stipulated for a production regarding which a corporation, controlled directly or indirectly, in any way whatsoever, by a broadcaster, concluded directly with the owner of the copyright, other than the broadcaster or a related corporation, a contract for the delivery of services in relation to such production. In such a case, no limit as to the period of eligibility for the tax credit for film production services or as to the eligible production volume is applicable.

Furthermore, a film of fiction intended mainly for commercial showing outside Canada and made by a corporation controlled directly or indirectly, in any way whatsoever, by a broadcaster, is not subject to the annual production cap or to the requirement to reinvest in French-language Québec film.[24] However, as with the preceding exception, the period of eligibility for these tax credits regarding such a film of fiction was not limited.

In general, the experience of the last five years shows that opening tax credits for film and television production to broadcasters has not produced the anticipated effects. Accordingly, there is no justification for renewing it.

Consequently, changes will be made to the tax credit for Québec film and television production, the tax credit for film production services as well as to the regulations regarding these tax credits to limit broadcasters' access to these tax credits.

❑ Eligible corporation

The tax legislation will be amended to stipulate that a broadcaster or a corporation that, at any time during a taxation year or the preceding 24 months, is not at arm's length with a broadcaster, is henceforth an excluded corporation for the purposes of the tax credit for Québec film and television production and the tax credit for film production services.

These changes will apply regarding a taxation year of a corporation beginning after March 31, 2003.

❑ Eligible labour expenditure

Furthermore, the tax legislation will be amended to exclude from the amount of a corporation's labour expenditure for the purposes of the tax credit for Québec film and television production and the tax credit for film production services, the remuneration reasonably attributable to the salaries of the employees of a broadcaster or of a corporation that is not at arm's length with a broadcaster, that acts as a sub-contractor for the corporation.

These amendments will apply regarding labour expenditures incurred after March 31, 2003.

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❑ Eligible production

The regulations will be amended to stipulate that a production regarding which a corporation, controlled directly or indirectly, in any way whatsoever, by a broadcaster, has concluded directly with the owner of the copyright, other than the broadcaster or a related corporation, a contract for the delivery of services in relation to such production will no longer be an eligible production for the purposes of the tax credit for film production services.

Furthermore, the regulations will be amended so that a production of fiction, intended mainly for commercial showing outside Canada and made by a corporation controlled directly or indirectly, in any way whatsoever, by a broadcaster, will no longer be an eligible production for the purposes of the tax credit for Québec film and television production.

Lastly, a regulatory change will be made to stipulate that a production of fiction, intended mainly for commercial showing outside Canada and of which the copyright is held by a corporation controlled directly or indirectly, in any way whatsoever, by a broadcaster, will no longer be an eligible production for the purposes of the tax credit for film production services.

These changes will apply in relation to a film or television production regarding which an application for an advance ruling, or a final certification application if no application for an advance ruling was previously filed regarding such production, is filed with SODEC after March 31, 2003.

2.12 New component added to the regional increase for a Québec film or television production

Under existing rules, a corporation whose principal establishment is located outside the Montréal region can receive an increase regarding the labour expenditures incurred in the course of making, in the regions, a Québec film or television production. For the purposes of this increase, the Montréal region is defined as the region included within less than 25 kilometres, by road, from any point on the circle with a radius of 25 kilometres and its centre at Papineau metro station.

To encourage film shoots outside the Montréal region by production corporations established in the Montréal region, a second component will be added to the regional increase for the purposes of the tax credit for Québec film and television production.

More specifically, this component will consist of a 3% increase in the basic rates regarding labour expenditures incurred for services provided in the regions, in the course of shooting scenes away from the studio in relation to a Québec film.

For the purposes of this new component of the regional increase, an "eligible corporation", for a taxation year, means a corporation otherwise eligible for the tax credit for Québec film and television production, other than a corporation regarding which SODEC has issued, for such taxation year, an eligibility certificate as a regional corporation.

For greater clarity, only labour expenditures relating to non-studio film shoots will constitute eligible expenditures for the purposes of this new component of the regional increase.

In order to claim this new component of the regional increase, an eligible corporation must enclose with its tax return, for a taxation year, an attestation from SODEC identifying, by budget item, the labour expenditures giving rise to the increase in relation to a film or television production regarding which a tax credit is claimed, for such taxation year.

For greater clarity, the MRQ will have exclusive responsibility for verifying the incurred and paid nature of the amount of the expenditure giving rise to this increase as well as the determination, for a given taxation year, of the amount of the expenditure giving rise to such increase.

This change will apply regarding labour expenditures otherwise eligible for the tax credit for Québec film and television production, incurred after the day of the Budget Speech.

2.13 Other measures regarding culture

For many years, the government has supported the development of Québec's cultural industries with a number of refundable tax credits. To ensure that the objectives of these tax credits are achieved and to better target the corporations regarding which tax assistance may be granted, changes will be made to the tax credit for Québec film and television production, the tax credit for film production services, the tax credit for shows, the tax credit for the production of sound recordings and the tax credit for book publishing.

In addition, changes will be made to standardize the rules applicable to all the tax credits in the cultural field.

2.13.1 Refundable tax credit for Québec film and television production

The refundable tax credit for Québec film or television production covers labour expenditures incurred by a corporation that produces a Québec film, as this expression is understood in the Regulation. This tax credit generally corresponds to 33 ⅓% of eligible labour expenditures incurred to produce the film.

❑ Change to the notion of eligible corporation

In general, an eligible corporation, for the purposes of the tax credit for Québec film and television production, is a corporation that, in a taxation year, has an establishment in Québec, carries on a film and television production business there and is not controlled, directly or indirectly, in any way whatsoever, at any time of the year or the preceding 24 months, by one or more persons that do not reside in Québec.

In other words, a corporation eligible for this tax credit must in particular be a Québec-controlled corporation. Essentially, this condition stems from a determination to specifically help Québec corporations to structure and organize themselves, so as to effectively promote Québec culture as part of the properties they produce.

Currently, under the application of the tax credit for Québec film and television production, for a group of persons to be considered to control a corporation, its members must, in one way or another, take measures or make decisions together, i.e. act in concert. Consequently, even if more than 50% of the shares of a corporation are held by persons not residing in Québec, it must be shown that such persons act in concert for the corporation to be considered a corporation controlled by persons not residing in Québec.

In a context of support specifically reserved for Québec corporations, it is difficult to justify that a corporation belonging mainly to foreign interests is eligible for the purposes of the tax credit for Québec film and television production.

Recourse to the notion of concerted action is frequently open to debate and uncertainty, essentially because it is a question of fact.

In this context, the tax legislation will be amended to further target corporations regarding which support is provided, while allowing the use of a more objective test to determine the control of a corporation for the purposes of the tax credit for Québec film and television production.

More specifically, in the course of such a determination, the shares held by persons not residing in Québec will be hypothetically attributed to a hypothetical person. If such attribution gives control of the corporation to such hypothetical person, the corporation shall be a corporation controlled by persons not residing in Québec for the purposes of the tax credit for Québec film and television production.

In this regard, collective holding alone will henceforth be sufficient to attribute control of a corporation to a group of persons not residing in Québec and holding more than 50% of the shares of such corporation, without the need to show that such persons are acting in concert.

This change will apply to a taxation year of a corporation beginning after the day of the Budget Speech.

❑ Government and non-government assistance

In general, the amount of any government assistance and any non-government assistance, other than an excluded amount, that a corporation received or is entitled to receive, must reduce the amount of labour expenditures or production expenses, as the case may be, for the calculation of the tax credit for Québec film and television production to which a corporation is entitled.

The amounts excluded for the purposes of this rule are essentially amounts paid by public organizations in the cultural field such as SODEC, the National Film Board and Telefilm Canada.

In other words, the tax credit for Québec film and television production is intended to be assistance provided over and above the assistance from the various sources of public funding of the cultural community. In this regard, this tax credit differs from all other refundable tax credits stipulated in the tax legislation, in that a portion of this credit may be granted regarding an expenditure or expense otherwise covered by financial support from one or more public organizations. This is a fiscal policy adapted to a cultural policy designed to support the production of Québec films, in the specific context of the promotion of Québec's cultural identity.

Furthermore, apart from the assistance from the cultural field, the tax legislation stipulates that the amounts of assistance paid for advertising purposes are also considered excluded assistance not reducing the labour expenditures or the production expenses of a film.

In applying the notion of amount of assistance for the purposes of the tax credit for Québec film and television production, the MRQ must rule on many questions of fact to determine whether or not an amount received applies as a reduction in the calculation of the tax credit.

The MRQ must first ensure that the amount in question is attributable to the property. It must then determine whether the amount is assistance, i.e. it must check whether the payer obtained consideration for the amount of its financial contribution. If the payer did receive consideration, the MRQ must then determine the fair market value (FMV) of such consideration. If the amount paid by the financial backer exceeds the FMV of the consideration obtained by the latter, the balance is then rightly considered by the MRQ as an amount of assistance. In addition, the MRQ may have to determine whether an amount of assistance was paid for advertising purposes, so that such amount would then be an excluded amount for the purposes of the tax credit.

Because of the proliferation of financial backers, the MRQ must very often undertake an analysis to answer the questions described above. Each such undertaking is a complex exercise for the MRQ since it must take a position on questions of fact, which may be viewed differently by each of the parties involved.

While a producer might maintain that no amount of assistance is involved since the consideration was negotiated, the MRQ may consider the FMV of certain considerations to be minimal, in particular in the case of an assignment of non-commercial or secondary market rights. Furthermore, whether an amount of assistance provided in the course of production of a film is for advertising is also a question of fact.

In fiscal policy terms, the current problem lies with the accumulation, within the same production budget, of many financial contributions that qualify as excluded assistance. While the primary objective when the tax credit for film and television production was implemented was to provide a tax credit over and above the assistance from organizations in the cultural field, the government's intention was not to provide a tax credit for the cost of production of a film borne by any other public organization.

- **Changes to applicable rules**

In this context, to limit situations regarding which the MRQ needs to question the nature of the amounts paid by public organizations in the course of financing a film or television production, to reduce future discussion over questions of fact and to provide producers with more certainty in the evaluation of the tax credit they are entitled to, the tax legislation will be amended.

First, the notion of the amount paid for advertising purposes will be withdrawn.

Furthermore, to return to the primary objective of limiting excluded amounts of assistance solely to the amounts of assistance paid by public organizations in the cultural field, the legislation will be amended to specify that the amount of any financial contribution attributable to film and television production, regardless of its form, provided, directly or indirectly, by a government, a municipality or other administration, other than an excluded amount, will be considered a reducing amount of assistance for the purposes of the tax credit for Québec film and television production. For greater clarity, the notion of indirect assistance will be applied to determine whether an amount was received from a government, a municipality or other administration.

Lastly, in the case of financial support granted by any other entity, person or partnership, the notion of non-government assistance will continue to apply. Accordingly, the MRQ must continue to determine whether the financial contribution is attributable to the property, as well as its nature. In addition, it will verify the presence and, if need be, the FMV of the consideration provided in exchange for such financial contribution.

These changes will apply in relation to a film and television production regarding which an application for an advance ruling, or a final certification application if no application for an advance ruling was previously filed regarding such production, is filed with SODEC after April 30, 2003.

They change will also apply in relation to a film or television production, regardless of whether an application for an advance ruling is filed with SODEC before May 1, 2003, if SODEC considers that the work on such production was not sufficiently advanced on the day of the Budget Speech.

However, in the specific case of a series, these changes will not apply in relation to an episode or a show that is part of a series, if an application for an advance ruling, or a final certification application if no application for an advance ruling was previously filed, is filed with SODEC before May 1, 2003, regarding an episode or a show that is part of a series, and SODEC considers that the work on the production of an episode or a show of such series was sufficiently advanced on the day of the Budget Speech.

- **New excluded amount of assistance**

Amounts paid by public organizations in the cultural field, such as SODEC, the National Film Board and Telefilm Canada, will continue not to be reducing amounts of assistance, in compliance with applicable fiscal policy. Furthermore, the legislation will be amended to stipulate that an amount of assistance paid by the Conseil des arts et des lettres du Québec (CALQ) is an excluded amount of assistance for the purposes of the tax credit for Québec film and television production. Accordingly, an amount of assistance paid by this organization will not reduce eligible labour expenditures or production expenses regarding a Québec film.

This change will apply regarding an amount received or receivable after the day of the Budget Speech.

It will also apply regarding a taxation year for which a corporation received the tax credit for Québec film and television production regarding a Québec film, except regarding taxation years prescribed the day of the Budget Speech. Furthermore, this change will apply regarding a taxation year in relation to which a notice of objection, an appeal or a waiver of prescription has been duly served on the Minister of Revenue, before the day of the Budget Speech.

- **Interaction with federal tax credits**

For the purposes of the tax credit for Québec film and television production and for the purposes of the tax credit for film production services, the federal equivalent to the Québec tax credit concerned is a non-reducing amount of assistance.

Accordingly, the Canadian film or video production tax credit obtained regarding a Québec film production does not reduce the amount of the tax credit for Québec film and television production to which a corporation is entitled. Similarly, the amount received for the federal tax credit for film or video production services does not reduce the amount of the credit for Québec film production services.

Because, in particular, of the certification criteria stipulated in the regulation, it can happen that a production eligible for a tax credit for Québec film and television production receives, at the federal level, the tax credit for film or video production services. In such specific situations, Québec's tax system as it stands considers the assistance from the federal tax credit as a reducing amount of government assistance for the purposes of the Québec tax credit.

To recognize the duality of the systems regarding support for film production, the tax legislation will be amended.

More specifically, the federal tax credit for film or video production services will not be considered an amount of government assistance for the purposes of the tax credit for Québec film and television production.

This change will apply regarding an amount of assistance received or receivable after the day of the Budget Speech.

It will also apply regarding a taxation year for which a corporation received the tax credit for Québec film and television production regarding a Québec film, except in regard to taxation years prescribed the day of the Budget Speech. Furthermore, this change will apply regarding a taxation year in relation to which a notice of objection, an appeal or a waiver of prescription has been duly served on the Minister of Revenue, before the day of the Budget Speech.

❑ Clarification of the notion of production expenses of a film

On July 5, 2001, many changes were made to the tax credit for Québec film and television production to make it simpler to calculate.[25] In general, the cap based on production expenses was retained, but the components of production expenses were redefined.

Accordingly, the notion of production expenses now refers to the expenses actually incurred that are directly attributable to the production of a film. However, the initial text contained a number of examples of expenses directly attributable to the production of a film and mentioned that such expenses had to be recognized in the calculation of production expenses, to the degree that such expenses would not have been incurred had the film not been produced.

This illustration of the general principle has resulted in a degree of confusion. Relying solely on the terms of the illustration, it would be possible to argue that some expenses were incurred by a corporation because of the production of a film, whereas such expenses are not directly attributable to the production of such film.

In this context, it should be noted that the key criterion for qualifying expenses as production expenses of a film is solely the fact that they are directly attributable to the production of such film. Accordingly, expenses will not be recognized in the calculation of production expenses of a film if they are not directly attributable to the production of such film, even if such expenses would not have been incurred had a film not been produced.

Such is the case, for instance, with incorporation expenses paid by a corporation created solely for the purpose of producing a film. While incorporation expenses were paid by a corporation that produced a film, although they were incurred with the objective of producing a film, they are not directly attributable to the production of such film.

Similarly, for purposes of illustration, the tax on capital, corporate income tax and fees paid to the Inspector General of Financial Institutions are expenses excluded from the notion of production expenses for the purposes of this tax credit, because they are not directly attributable to the production of a film.

25 Bulletin d'information 2001-6.

This clarification will apply retroactively to the application date of the change concerning the notion of production expenses, i.e. regarding a film or television production for which an application for an advance ruling, or a final certification application if no application for an advance ruling was previously filed in relation to such production, was filed with SODEC after August 31, 2001, or between July 5, 2001 and August 31, 2001 if the election to opt for the new rules for the calculation of the tax credit was made regarding the production covered by such application.

❑ Limit to the period, beyond postproduction, during which expenses may be incurred for the production of a film

On July 5, 2001, the period following postproduction of a film, within which the MRQ may allow certain expenses as production expenses of a film or labour expenditures that can give rise to the tax credit for Québec film and television production, was extended to the date of filing of the final certification application in relation to such film.[26] At the time of this announcement, the deadline for filing a final certification application was 12 months following the date of recording the first trial composite of a film, if an application for an advance ruling had previously been filed regarding such film.

For instance, expenses for sub-titles of a film incurred by a corporation in the course of the production of such film, following the date of recording the first trial composite of such film, but before the date of the final certification application for such film with SODEC, can now be allowed by the MRQ as labour expenditures and production expenses of such film, if all the conditions otherwise applicable are satisfied.

On December 20, 2001, the time allowed for filing a final certification application was extended to 18 months from the end of the fiscal year that includes the date of recording of the first trial composite of the film, if an application for an advance ruling had previously been filed regarding such film.[27] If no application for an advance ruling is filed for a film, the time allowed for filing a final certification application is now the period of prescription applicable for the corporation's taxation year that includes the date of recording of the first trial composite of such film.

Because of the latter announcement regarding the time allowed for filing a final certification application, the time, following postproduction of a film, within which the MRQ may allow certain expenditures as production expenses of a film or labour expenditures giving rise to the tax credit, was consequently extended to the period of prescription applicable for the corporation's taxation year that includes the date of recording of the first trial composite of the film, if no application for an advance ruling was filed regarding such film.

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26 *Ibid.*

27 Bulletin d'information 2001-13.

To ensure that all productions benefit from the same rules regarding labour expenditures and other production expenses incurred following postproduction, regardless of where their file stands at SODEC (filing of an application for an advance ruling followed by a final certification application or solely the filing of a final certification application), the time, following postproduction of a film, within which the MRQ may allow certain expenditures as production expenses or labour expenditures will, in every case, be limited to 18 months from the end of the fiscal year that includes the date of recording of the first trial composite of a film.

This change will apply regarding a Québec film and television production for which a final certification application was submitted to SODEC after July 5, 2001, or between July 5, 2001 and August 31, 2001 if the election to opt for the new rules for the calculation of the tax credit was made regarding the production covered by such application.

2.13.2 New exclusion for the application of the tax credit for the production of sound recordings

The tax credit for the production of sound recordings enables an eligible corporation to receive a refundable tax credit equal to 33 ⅓% of the eligible labour expenditures it incurs to produce an eligible sound recording. However, the labour expenditures giving rise to this tax credit may not exceed 45% of the production expenses of the sound recording, so that the tax assistance may not exceed 15% of such expenses. Furthermore the tax credit granted regarding an eligible sound recording may not exceed $50 000.

In general, an eligible sound recording, for the purposes of this tax credit, must have been produced by a recognized record company or by a corporation that concluded an agreement for the use of the sound recording, with a recognized record company, and satisfy the Québec content criteria stipulated in a point scale. Furthermore, 75% of the amounts paid for the production of the sound recording must be paid to persons who resided in Québec or to corporations with an establishment there.

The sound recording must also not be part of an excluded category, i.e. it must not have been made for purposes of education or teaching a technique, or for corporate purposes, nor must it be a talking book, or a collection of sound effects.

Essentially, the tax credit for the production sound recordings was set up to support the Québec recording industry and encourage its consolidation, by fostering the development of Québec songs. The exclusions mentioned above were introduced to ensure compliance with this fiscal policy.

However, some types of sound recordings could qualify as eligible sound recordings under current Québec and musical content criteria, without otherwise complying with the fiscal policy applicable regarding the tax credit for the production of sound recordings. Such is the case for a sound recording that is incidental to another property, a component of a game for instance.

In this context, the regulations will be amended to stipulate that a sound recording that is a component of a game is not an eligible sound recording for the purposes of the tax credit for the production of sound recordings.

This change will apply retroactively to the effective date of the tax credit for the production of sound recordings, i.e. March 9, 1999.

2.13.3 Concordance changes regarding certain refundable tax credits relating to the cultural field

❑ Notion of eligible corporation

In general, an eligible corporation, for the purposes of the tax credit for the production of shows, the tax credit for the production of sound recordings and the tax credit for book publishing, is a corporation that is not controlled, directly or indirectly, in any way whatsoever, at any time of the taxation year or the preceding 24 months, by one or more persons that do not reside in Québec.

Like the situation in the film and television industry, the government has chosen to support Québec corporations operating in the field of shows, recordings and publishing with specific fiscal measures not accessible to corporations controlled by persons not residing in Québec.

In this context, a change to the notion of eligible corporation, with the same effect as the one announced above regarding the refundable tax credit for Québec film and television production, will be made regarding the tax credit for the production of shows, the tax credit for the production of sound recordings and the tax credit for book publishing.

More specifically, in the course of the determination of the control of a corporation for the purposes of these tax credit, the shares held by persons not residing in Québec must be hypothetically attributed to a hypothetical person. If such attribution gives control of the corporation to such hypothetical person, the corporation shall not be an eligible corporation for the purposes of the tax credit for the production of shows, the tax credit for the production of sound recordings or the tax credit for book publishing.

In this regard, collective holding alone will henceforth be sufficient to attribute control of a corporation to a group of persons not residing in Québec and holding more than 50% of the shares of such corporation, without the need to show that such persons are acting in concert.

This change will apply, for the tax credit for the production of shows, the tax credit for the production of sound recordings and the tax credit for book publishing regarding a taxation year of a corporation beginning after the day of the Budget Speech.

❑ Notion of amount of government and non-government assistance

Like the change announced above concerning tax credit for Québec film and television production, the tax legislation will be amended to specify that the amount of any financial contribution attributable to a production, a dubbed version of a production, a show, a sound recording or a work, as the case may be, regardless of its form, provided, directly or indirectly, by a government, a municipality or other administration, other than an excluded amount, will be considered a reducing amount of assistance for the purposes of the tax credit for film production services, the tax credit for film dubbing, the tax credit for the production of shows, the tax credit for the production of sound recordings and the tax credit for book publishing.

Lastly, in the case of financial support granted by any other entity, person or partnership, the notion of non-government assistance will continue to apply. Accordingly, the MRQ must continue to determine whether the financial contribution is attributable to the property, as well as its nature. In addition, it will verify the presence and, if need be, the FMV of the consideration provided in exchange for such financial contribution.

The changes will apply as follows:

— in the case of the tax credit for film production services, regarding a production for which an application for an advance ruling, or a final certification application if no application for an advance ruling was previously filed regarding such production, is filed with SODEC after April 30, 2003;

— in the case of the tax credit for film dubbing, regarding a production that has been dubbed and for which a final certification application was filed with SODEC after April 30, 2003;

— in the case of the tax credit for the production of shows, regarding a show for which an application for an advance ruling, or a final certification application if no application for an advance ruling was previously file regarding such show, is filed with SODEC, regarding one of the three periods for which a tax credit may be claimed, after April 30, 2003;

— in the case of the tax credit for the production of sound recordings, regarding a sound recording for which an application for an advance ruling, or a final certification application if no application for an advance ruling was previously filed regarding such sound recording, is filed with SODEC after April 1, 2003;

— in the case of the tax credit for book publishing, regarding a work or group of works, as the case may be, for which an application for an advance ruling, or a final certification application if no application for an advance ruling was previously filed regarding such work or such group of books, is filed with SODEC after April 30, 2003.

These changes will also apply regarding a production, a dubbed version of a production, a show, a sound recording or a work, as the case may be, even if an application for an advance ruling is filed with SODEC before May 1, 2003 regarding such property, if SODEC considers that the work on the production of such property was not sufficiently advanced on the day of the Budget Speech.

2.13.4 Standardization of rules for the purposes of tax credits in the cultural field

On December 19, 1990, the Québec government introduced the refundable tax credit for Québec film and television production.[28] Briefly, this tax credit covers the labour expenditures incurred by a corporation that produces a Québec film, as this expression is understood in the Regulation. This credit generally corresponds to 33 ⅓% of the eligible labour expenditure incurred to produce such a property.

Since then, five other tax credits have been implemented for the cultural industries, namely the tax credit for film production services, the tax credit for film dubbing, the tax credit for the production of shows, the tax credit for the production of sound recordings and the tax credit for book publishing.

The tax credit for film production services covers the Québec labour expenditures attributable to the various stages of production or execution of a foreign production.[29] The amount of the tax credit corresponds to 11% of eligible labour expenditures.

The tax credit for film dubbing covers labour expenditures relating to certain services supplied in Québec and inherent in the process of dubbing film or television productions. This tax credit is equal to 33 ⅓% of the eligible labour expenditures, which are limited, however, to 40.5% of the consideration paid for the execution of the dubbing contract, excluding the goods and services tax and the Québec sales tax.

28 See above, note 22.

29 It may also be a production that does not satisfy Québec content criteria giving rise to the tax credit for Québec film and television production.

Briefly, the tax credit for the production of shows is equal to 33 ⅓% of the eligible labour expenditures incurred for the purpose of producing an eligible production. Labour expenditures giving rise to this tax credit may not exceed 45% of the production expenses of the show, so that the tax assistance may not exceed 15% of such expenses.

Similarly, the refundable tax credit for the production of sound recordings enables an eligible corporation to receive a refundable tax credit equal to 33 ⅓% of the eligible labour expenditures it incurs to produce an eligible sound recording. Such expenses may not exceed 45% of the production expenses of such a recording so that the tax assistance may not exceed 15% of such expenses.

Lastly, the tax credit for book publishing covers the labour expenditures attributable to the preparation and printing of a Québec work and provides an eligible corporation with assistance ranging between 10% and 20% of the total preparation and printing expenses of the work.

All these new tax credits were essentially inspired by the tax credit for Québec film and television production, and each was adapted to reflect the applicable specific sectoral features.

In July 2001, changes were made to the tax credit for Québec film and television production, in particular to reduce the associated risk of non-compliance and simplify the calculation.[30] In general, the cap based on production expenses was retained, but the components of the production expenses were redefined.

Accordingly, to standardize the structure and the applicable rules for all the tax credits targeting the cultural industries with the structural changes introduced to the tax credit for Québec film and television production, changes will be made to the tax credit for film production services, the tax credit for film dubbing, the tax credit for the production of shows, the tax credit for the production of sound recordings and the tax credit for book publishing.

Similarly, to standardize the notion of eligible labour expenditure for the purposes of each tax credit in the cultural field, changes will be made to all the tax credits in this sector, including the tax credit for Québec film and television production.

Lastly, changes will be made to simplify the administration of these tax credits.

30 See above, note 25.

❑ Simplification of the calculation of production expenses, printing expenses and preparation expenses

In general, labour expenditures that give rise to the tax credit for the production of shows and to the tax credit for the production of sound recordings cannot exceed 45% of the production expenses of a show or a sound recording. Similarly, labour expenditures that give rise to the tax credit for book publishing are limited on the basis of the printing expenses and preparation expenses of a work.

Currently, a portion of the production expenses of a show or of a sound recording can consist of production expenses and general administration expenses deemed incurred. More specifically, the tax legislation allows the addition to production expenses actually incurred regarding a show or a sound recording, of an amount as production expenses and general administration expenses equal to 15% of total production expenses otherwise established.

Furthermore, the tax legislation stipulates that the preparation expenses of a work may include an amount as publishing expenses and administration expenses deemed incurred, equal to 15% of total preparation expenses otherwise established for the purposes of the tax credit for book publishing.

The tax legislation also allows the eligibility, as production expenses, of an amount equal to the FMV of the use, without consideration, of goods or services in the course of the production of a show, for the purposes of the tax credit for the production of shows, and in the course of the production of a sound recording, for the purposes of the tax credit for the production of sound recordings.

The experience of the tax credit for Québec film and television production indicates that the notions of amount deemed incurred and of value of use, without consideration, of goods or services, can give rise to differences of interpretation. Accordingly, changes will be made to the tax credit for the production of shows, the tax credit for the production of sound recordings and the tax credit for book publishing.

• Withdrawal of amounts deemed incurred as production or publishing fees and general administration expenses

Like the change made as part of the simplification of the tax credit for Québec film and television production, the tax credit for the production of shows and the tax credit for the production of sound recordings will be changed so that only the amounts actually incurred for the production of a show or a sound recording are included in the calculation of production expenses for the purposes of these tax credits.

More specifically, the tax legislation will be amended so that the production expenses of a show and a sound recording no longer include an amount deemed incurred as production fees and general administration expenses. Accordingly, amounts for production fees and general administration expenses may be included in the calculation of the production expenses of a show and a sound recording only if they were actually incurred for the production of such properties.

Similarly, the tax credit for book publishing will be changed so that the preparation expenses of a work no longer include an amount deemed incurred as publishing fees and administration expenses. Accordingly, only amounts actually incurred for the production of a work will be included in the calculation of preparation expenses for the purposes of this tax credit. For greater clarity, an amount for publishing fees and general administration expenses may be included in the calculation of the preparation expenses of a work only if it was actually incurred in the course of the preparation of such work.

- **Withdrawal of the value of the use, without consideration, of goods or services**

The tax credit for the production of shows and the tax credit for the production of sound recordings will also be changed so that the value of the use, without consideration, of goods or services, can no longer be included in the calculation of production expenses for the purposes of these tax credits.

- **Expenses directly attributable to the production of a show, a sound recording or a work**

As a consequence of the two preceding changes, the calculation of the production expenses of a show or a sound recording, or the calculation of the printing expenses and the preparation expenses of a work henceforth will include only the expenses actually incurred that are directly attributable to the production of such show, such sound recording or such work, apart from the expenses specifically excluded under existing rules.

However, the clarification of the notion of production expenses of a film, mentioned previously for the purposes of the tax credit for Québec film and television production, will also apply for the tax credit for the production of shows, the tax credit for the production of sound recordings and the tax credit for book publishing. Consequently, expenses will not be recognized in the calculation of the production expenses of a show or a sound recording, or in the calculation of the printing expenses and preparation expenses of a work, if they are not directly attributable to the production of such show, such sound recording or such work, as the case may be, even if such expenses would not have been incurred had such show, such sound recording or such work not been produced, the tax on capital for instance.

- **Obligation to pay the production expenses of a show, a sound recording or a work**

Currently, the labour expenditures that give rise to any of the tax credits in the cultural field must be paid at the time the tax credit is claimed.

As part of the calculation of the tax credit for the production of shows, the tax credit for the production of sound recordings and the tax credit for book publishing, the tax legislation stipulates only that the corporation must incur production expenses or preparation expenses and printing expenses, as the case may be, not that it must pay them, to be able to include them in such expenses in the calculation of the tax credit it is entitled to.

Since the amount of assistance granted through these tax credits depends both on the labour expenditure and the total production expenses attributable to the production of a show or a sound recording, the legislation will be amended to stipulate that any expenditure included in the production expenses of a show or a sound recording must henceforth be paid before a corporation can claim a tax credit for the production of shows or a tax credit for the production of sound recordings in this regard. This will also apply to any expenditure included in the printing expenses and preparation expenses of a work for the purposes of the tax credit for book publishing.

For greater clarity, production expenses, printing expenses or preparation expenses, as the case may be, incurred in the course of the production of a property that is a show, a sound recording or a work, as the case may be, but not paid before a corporation claims the tax credit for the production of shows, the tax credit for the production of sound recordings or the tax credit for book publishing, as the case may be, for a given taxation year, will not be included in the calculation of the cap based on production expenses, printing expenses or preparation expenses, as the case may be, to establish the amount of the tax credit for such given taxation year, but may be for a subsequent taxation year provided they have been paid before the corporation claims such tax credit for such subsequent taxation year.

- **Eligibility of a portion of the cost of acquisition of an asset**

Currently, for the purposes of the tax credit for Québec film and television production, production expenses directly attributable to the production of a Québec film can include a portion of the cost of acquisition of an asset used in the course of the production of such a film. Essentially, the legislation enables a corporation to add an amount corresponding to the portion of the accounting depreciation of assets used to produce the Québec film.

This possibility is not available in the calculation of the cap based on production expenses for the purposes of the other tax credits in the cultural field.

Accordingly, the legislation will be amended so that the production expenses of a show or a sound recording as well as the preparation expenses and printing expenses of a work can include a portion of the cost of acquisition of goods belonging to the eligible corporation for the purposes of the tax credit for the production of shows, the tax credit for the production of sound recordings and the tax credit for book publishing, when it uses such assets in the course of the production of a show, a sound recording or a work.

In this regard, the portion of the cost of acquisition of such assets that may be included in production expenses, preparation expenses and printing expenses, as the case may be, will correspond to the portion of the accounting depreciation of such assets, for a year, relating to the use made by the corporation of such assets, in such year, in the course of the production of the show, the sound recording or the work.

For greater clarity, all the amounts thus included in production expenses, printing expenses or preparation expenses, as the case may be, of a number of shows, sound recordings or works, as the case may be, in relation to a given asset, must not exceed the total accounting depreciation of such asset.

- **Profit, gain or refund reducing the financial charge of the corporation**

It can happen, in some cases, that the financial charge of a corporation, in relation to a property it produced, is reduced when, for instance, it obtains a profit, a gain or a refund from a third party, or when it disposes of an asset belonging to it that it used in the course of the production of the given property.

Accordingly, so that the expenses directly attributable to the production of a show or a sound recording reflect the financial charge actually borne by a corporation, the tax legislation will be amended so that, for a given taxation year for which such corporation claims a tax credit for the production of shows or a tax credit for the production of sound recordings, the production expenses of the show or the sound recording must be reduced, subject to the amounts of government and non-government assistance otherwise excluded for the purposes of these tax credits, by the amount of any profit, gain or refund the corporation obtained, is entitled to obtain or may reasonably expect to obtain, no later than the filing deadline applicable to it for such given taxation year, whether in the form of compensation, guarantee or proceeds of disposition of an asset that exceeds the FMV of such asset, or under any other form or in any other way.

Furthermore, the portion of the proceeds of disposition of an asset that relates to a portion of the cost of acquisition of such asset that has already been included in the production expenses of the show or the sound recording, will be considered a gain, up to the amount of the portion of the cost of acquisition of such asset that that was previously included in the production expenses of the show or the sound recording.

For purposes of illustration, for a given show, if an asset belonging to a corporation has been used by it and an amount of $10, representing depreciation of 10% of such asset ($100 x 10%), has been included in the amount of $5 in the calculation of the production expenses of such show and another show respectively, and such asset is resold for $80, no later than the filing deadline applicable to the corporation for the taxation year in which it claims such tax credit regarding the last eligible period of the given show, an amount of $4 (($80 x 10%) ÷ 2) must be subtracted from the calculation of the production expenses of such given show.[31]

- **Discretion accorded the Minister of Revenue**

Currently, for the purposes of the tax credit for Québec film and television production, the Minister of Revenue may refuse to recognize the production expenses of a film he considers unreasonable compared to industry standards. This rule helps prevent amounts substantially greater than the standard generally recognized in the industry from being included in the production expenses of a film as production expenses and general administration expenses.

The Minister of Revenue may recognize, as labour expenditures or production expenses of a film, any expenditure incurred within a reasonable time following the date of recording the first trial composite of a film if such expenditure is directly related to the production of such film. By way of example, financial expenses or legal expenses incurred following the date of recording the first trial composite of a film but directly attributable to such film, can henceforth be included in the calculation of the production expenses of such film.

Such discretion should also exist to allow the Minister of Revenue to recognize or deny certain expenditures in the calculation of labour expenditures or production expenses, as the case may be, for the purposes of other tax credits of the cultural field.

31 For greater clarity, if the asset had been disposed of for proceeds greater than its cost of acquisition, the amount subtracted as a gain would be limited to the portion of the amount of depreciation that was included in the production expenses of the show.

Accordingly, the tax legislation will be amended so that the Minister of Revenue may refuse to recognize as production expenses, publishing expenses or general administration expenses, any amount that is part of production expenses or preparation expenses, as the case may be, that he considers unreasonable compared to industry standards, for the purposes of the tax credit for the production of shows, the tax credit for the production of sound recordings and the tax credit for book publishing.

In addition, the Minister of Revenue may recognize as an eligible labour expenditure, production expenses, printing expenses or preparation expenses, as the case may be, any expenditure incurred and directly attributable to the production of the property regarding which a tax credit for film production services, a tax credit film dubbing, a tax credit for the production of shows, a tax credit for the production of sound recordings or a tax credit for book publishing, as the case may be, is claimed.

In this regard, the period within which the Minister of Revenue may grant such recognition will be limited to 18 months from the end of the fiscal year that includes the date of recording of the first trial composite of the eligible production or of the eligible small-budget production, the date of completion of the dubbed master copy, the date when one of the three periods of a show regarding which a tax credit can be claimed is completed, the date of completion of the master tape of a sound recording, or the date when the first printing of a work or the last work of a group of works is completed, as the case may be.

- **New excluded amount of assistance**

In general, the amount of any government assistance and any non-government assistance, other than an excluded amount, that a corporation received or is entitled to receive, must reduce the amount of labour expenditures or production expenses, as the case may be, for the calculation of the tax credit to which a corporation is entitled.

Exceptionally, for the purposes of certain tax credits, amounts paid by public organizations in the cultural field do not reduce labour expenditures or production expenses, as the case may be, in the calculation of the tax credit to which a corporation is entitled. This specific fiscal policy is designed to further support the production of certain properties, in the specific context of the promotion of Québec's cultural identity.

As previously mentioned under the tax credit for Québec film and television production, the fiscal policy underlying the amounts of assistance stipulates that amounts paid by public organizations in the cultural field are not reducing amounts of assistance in the calculation of eligible labour expenditures or production expenses, as the case may be, for the purposes of the tax credits in the cultural field.

In this context, the tax legislation will be amended to stipulate that an amount granted by Telefilm Canada from the Canada Music Fund is an excluded amount of assistance for the purposes of the tax credit for the production of sound recordings.

❑ Changes to the notion of eligible labour expenditure for the purposes of certain tax credits in the cultural field

Currently, there is no common parameter circumscribing the notion of eligible labour expenditure for the purposes of the tax credits in the cultural field.

Accordingly, the rules applicable to the tax credit for the production of sound recordings stipulate that employees of an eligible corporation must reside in Québec for the amount incurred as wages or salary to be included in the calculation of the corporation's labour expenditure. However, such an obligation does not exist for the purposes of the tax credit for film dubbing or the tax credit for Québec film and television production.

A sub-contractor must have an establishment in Québec for the amount of the consideration paid to him to be considered in the calculation of the labour expenditure of an eligible corporation for the purposes of the tax credit for the production of shows, whereas the legislation does not impose this obligation for the purposes of the tax credit for film dubbing.

Unless a specific sectoral feature requires otherwise, the notion of eligible labour expenditure should be the same for all tax credits in the cultural field.

In addition, to secure maximum spin-offs for Québec, the labour expenditure regarding which a tax credit is granted should, as far as possible, benefit individuals residing in Québec or corporations established there.

• New residence criterion for employees of an eligible corporation

In this context, the tax legislation will be amended to stipulate that wages or salaries that an eligible corporation incurs must henceforth be incurred with individuals who resided in Québec at some time during the taxation year of the latter in which services were provided in the course of making a film or television production, the dubbed version of a production, a show, a sound recording or a book, as the case may be, for the purposes of the tax credit for Québec film and television production, the tax credit for film production services, the tax credit for film dubbing, the tax credit for the production of shows, the tax credit for the production of sound recordings and the tax credit for book publishing.

- **New criteria regarding residence and establishment in Québec in the case of a sub-contractor**

A change will be made to the tax credit for film production services, the tax credit for film dubbing, the tax credit for the production of shows, the tax credit for the production of sound recordings and the tax credit for book publishing, to stipulate that only the portion of the remuneration paid to an individual residing in Québec at some time during the taxation year of the latter in which services were provided in the course of making the film production, the dubbed version of a production, the show, the sound recording or the work, as the case may be, or to a corporation or a partnership with an establishment in Québec, as the case may be, will be included in the calculation of a corporation's labour expenditure for a taxation year.

- **New criterion regarding residence in Québec for the employees of a sub-contractor**

In the same vein, the tax legislation will be amended to stipulate that an employee of a sub-contractor that provides services in the course of production of a Québec film, for the purposes of the tax credit for Québec film and television production, in the course of dubbing a film or television production, for the purposes of the tax credit for film dubbing, or in the course of publishing a work, for the purposes of the tax credit for book publishing, must henceforth reside in Québec at some time during the taxation year of the latter in which services were provided in the course of making a film or television production, the dubbed version of a production or a work, as the case may be.

A change will also be made for the purposes of the tax credit for film production services, the tax credit for the production of shows and the tax credit for the production of sound recordings to stipulate that the employee of a sub-contractor that provides services in the course of making a film production, a show or a sound recording, as the case may be, must reside in Québec at some time during the taxation year of the latter in which such services were provided for the portion of the remuneration attributable to him or her to be included in the calculation of a corporation's labour expenditure for a taxation year.

- **New criterion regarding residence in Québec and obligation to provide services in Québec for the purposes of the increase for special effects and computer animation**

A change will be made to the tax credit for Québec film and television production to stipulate that a corporation's expenditure for special effects and computer animation, for a taxation year, will henceforth consist of salaries paid to the employees of an eligible corporation or a sub-contractor with an establishment in Québec that are reasonably attributable to the delivery of services provided in Québec by individuals residing in Québec at some time during the taxation year of the latter in which services were provided in the course of making the film and television production.

- **Remuneration relating to the postproduction stage of a property**

In addition, a change will be made to the tax credit for Québec film and television production and to the tax credit for film production services to remove any reference to the duties in the course of which services must be provided in the postproduction of a property that is a Québec film or television production, an eligible production or an eligible small-budget production.

Consequently, the entire labour expenditure relative to the postproduction of a property will be included in the calculation of the eligible labour expenditure, provided it satisfies the eligibility criteria otherwise established.

❑ Changes to simplify administration by the ministère du Revenu

- **New reference for determining the taxation year as of which a tax credit may be claimed**

Currently, an eligible corporation may claim a tax credit for Québec film and television production, in relation to a production, as of the corporation's taxation year in which an application for an advance ruling, or a final certification application if no application for an advance ruling was previously filed, is filed with SODEC for such production.

To standardize the claim periods applicable to all the tax credits in the cultural field, the date of filing the application for an advance ruling, or of the final certification application, if no application for an advance ruling was previously filed regarding a given property, will henceforth be the date as of which a tax credit can be claimed for the purposes of the tax credit for film production services, the tax credit for film dubbing, the tax credit for the production of shows, the tax credit for the production of sound recordings and the tax credit for book publishing.

For greater clarity, labour expenditures incurred for the production of a property giving rise to one of these tax credits, in a taxation year preceding the one as of which an eligible corporation may claim such tax credit, may be included in the determination of the tax credit to which a corporation is entitled for a subsequent taxation year in which an application for an advance ruling, or for final certification, as the case may be, is filed with SODEC regarding such property.

- **Special tax further to the revocation of a favourable advance ruling or final certification**

Under existing rules, if a favourable advance ruling or a final certification is revoked by SODEC, in a given taxation year, for the purposes of the tax credit for film dubbing and the tax credit for book publishing, the Minister of Revenue may levy a special tax, for such given taxation year, to recapture the amount of the tax credit overpayment during the preceding taxation year.

For the purposes of the administration of the other tax credits in the cultural field, the Minister of Revenue does not have this option. The special taxes relating to the tax credit for Québec film and television production, the tax credit for film production services, the tax credit for shows and the tax credit for the production of sound recordings are not applicable in the case of a revocation.

In this context, the option for the Minister of Revenue to act on a revocation by SODEC and issue an assessment to recapture an overpayment of tax credit is accordingly subject to the periods of prescription otherwise applicable for the corporation's taxation year in which the tax credit overpayment was obtained.

The tax legislation will be amended so that the amount of a tax credit overpayment can be recovered at any time by the Minister of Revenue when he is advised of a revocation by SODEC.

Accordingly, a tax credit for Québec film and television production, a tax credit for film production services, a tax credit for the production of shows or a tax credit for the production of sound recordings may be recaptured by means of a special tax when a favourable advance ruling or a final certification, issued in relation to a property regarding which such a tax credit was granted, is revoked by SODEC.

For greater clarity, a revocation by SODEC may henceforth give rise to the application of a special tax for the purposes of each of the tax credits of the cultural field, including such revocation regarding the expenditure for services supplied outside the Montréal region and the expenditure for special effects and computer animation identified by SODEC for the purposes of the tax credit for Québec film and television production.

❑ Application dates

These changes will apply as follows:

— in the case of the refundable tax credit for Québec film and television production, regarding a film or television production for which an application for an advance ruling, or a final certification application if no application for an advance ruling was previously filed in relation to such production, is filed with SODEC after April 30, 2003;

— in the case of the refundable tax credit for film production services, regarding a film or television production for which an application for an advance ruling, or a final certification application if no application for an advance ruling was previously filed in relation to such production, is filed with SODEC after April 30, 2003;

— in the case of the refundable tax credit for film dubbing, regarding a production that has been dubbed for which a final certification application is filed with SODEC after April 30, 2003;

— in the case of the refundable tax credit for the production of shows, regarding a show for which an application for an advance ruling, or a final certification application if no application for an advance ruling was previously filed, and relating to one of the three periods for which a tax credit can be claimed, is filed with SODEC after April 30, 2003;

— in the case of the refundable tax credit for the production of sound recordings, regarding a sound recording for which an application for an advance ruling, or a final certification application if no application for an advance ruling was previously filed in relation to such sound recording, is filed with SODEC after April 30, 2003;

— in the case of the refundable tax credit for book publishing, regarding a work or group of works for which an application for an advance ruling, or a final certification application if no application for an advance ruling was previously filed in relation to such work or such group of works, is filed with SODEC after April 30, 2003.

3. MEASURES CONCERNING CONSUMPTION TAXES

3.1 Voluntary registration of Canadian freight carriers not resident in Québec

At present, the Québec sales tax (QST) system allows businesses that are not resident in Québec and that supply services in Québec without carrying on a business there to register voluntarily for the QST provided they conclude an agreement whereby they undertake to supply services in Québec. However, an exception is provided for Canadian businesses not resident in Québec that supply freight transportation services there. Consequently, Canadian freight carriers that are not resident in Québec cannot take advantage of this voluntary registration measure.

However, it appears that certain Canadian businesses not resident in Québec are registered for the QST even though they supply freight transportation services there, since they are authorized or obliged to register because of other commercial activities they carry out in Québec.

To allow all Canadian businesses that are not resident in Québec and that supply freight transportation services there to receive equal tax treatment, the QST system will be changed to allow Canadian freight carriers not resident in Québec to register voluntarily, according to the same terms and conditions provided for other businesses not resident in Québec that supply services in Québec without carrying on a business there.

This measure will apply after the day of the Budget Speech.

3.2 Fuel tax refund in respect of biodiesel fuel

Under the fuel tax system, diesel fuel is usually taxable, regardless of whether it is derived from petroleum or other sources. Biodiesel fuel is thus subject to the fuel tax.

However, since this renewable fuel can reduce polluting emissions and help to cut greenhouse gases, measures should be taken to foster the production and use of biodiesel fuel in Québec.

In this context, the fuel tax system will be changed to grant persons who acquire biodiesel fuel a refund of the tax they are required to pay in respect of that fuel, provided the fuel is not mixed with other types of fuel at the time of its acquisition.

For the purposes of this measure, the term "biodiesel fuel" will mean oxygenated ester- or ether-based fuel, derived from vegetable oils or animal fat.

To be entitled to a refund of the fuel tax they paid, persons who acquire biodiesel fuel will have to submit an application to the ministère du Revenu using the prescribed form, accompanied by the prescribed supporting documents. They will also have to comply with the prescribed terms and conditions. All applications must concern acquisitions of biodiesel fuel made over a period of at least 3 months, except if the total acquisitions of biodiesel fuel eligible for the refund amount to 3 000 litres or more, and no more than 12 months. In addition, applications must be submitted within 15 months of the day on which the first acquisition of eligible biodiesel fuel was made.

This measure will apply to acquisitions of biodiesel fuel made after the day of the Budget Speech.

4. OTHER FISCAL MEASURES

4.1 Relaxation of the investment requirements imposed on certain mutual fund corporations

The Québec government has supported the mission of the Fonds de solidarité des travailleurs du Québec, Fondaction, the Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi, and Capital régional et coopératif Desjardins since they were created.

With regard to taxation, this support takes the form of a tax exemption on the taxable income of these mutual fund corporations and a non-refundable tax credit for individuals who acquire their shares.

Since such tax benefits make it easier to finance these investment companies, investment requirements have been included in the acts under which they were constituted to ensure, notably, that the funds collected are used as a financing tool to foster the growth of Québec entities.

Each of the acts under which these investment companies were constituted stipulates in particular that, in the course of each fiscal year, the proportion of investments made by the company concerned in eligible entities, entailing no security or hypothec, must represent, on average, at least 60% of its average net assets for the preceding year.

If the company fails to comply with this investment requirement, referred to hereafter as the "60% requirement", it will incur a sanction.

To ensure that the 60% requirement is better adapted to the capital needs of Québec businesses and does not limit the participation of these investment companies in projects that have a structuring impact on the Québec economy, various amendments will be made to the *Act to establish the Fonds de solidarité des travailleurs du Québec (F.T.Q.)*, the *Act to establish Fondaction, the Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi* and the *Act constituting Capital régional et coopératif Desjardins*.

❑ Reinvestment in entities

For the purposes of the 60% requirement imposed on the Fonds de solidarité des travailleurs du Québec and Capital régional et coopératif Desjardins, the expression "eligible entity" usually means an actively operating entity, the majority of whose employees reside in Québec and whose assets are less than $50 million or whose net equity does not exceed $20 million.

Even though investments in entities whose assets are less than $100 million or whose net equity does not exceed $40 million are not made in eligible entities, they are eligible for the purposes of the 60% requirement provided they are made in addition to an investment already made by these companies in an entity when it qualified as an eligible entity. However, such investments, when added to the investments the Fonds de solidarité des travailleurs du Québec and Capital régional et coopératif Desjardins are authorized to make otherwise than as first purchaser for the acquisition of securities issued by eligible entities, must not exceed 20% of the net assets of these companies at the end of the previous fiscal year.

For the purposes of the 60% requirement, the size of entities in which the Fonds de solidarité des travailleurs du Québec and Capital régional et coopératif Desjardins may reinvest even though such entities no longer qualify as eligible entities will be increased to henceforth cover entities whose assets are less than $350 million or whose net equity does not exceed $150 million.

The 60% requirement currently imposed on Fondaction stipulates essentially that that the proportion of the company's investments entailing no security or hypothec in entities whose assets are less than $100 million or whose net equity does not exceed $40 million must represent, on average, at least 60% of Fondaction's average net assets for the preceding year, and that a part representing at least two-thirds of this minimum percentage must be invested in entities whose assets are less than $50 million or whose net equity does not exceed $20 million.

Even though investments in entities whose assets are less than $350 million or whose net equity does not exceed $150 million are not made in entities whose assets are less than $100 million or whose net equity does not exceed $40 million, they will henceforth be eligible for the purposes of the 60% requirement imposed on Fondaction, provided they are made in addition to an investment already made by Fondaction in the entity when it qualified as an eligible entity for the purposes of the 60% requirement. However, such investments, when added to the investments that Fondaction is authorized to make otherwise than as first purchaser for the acquisition of securities issued by eligible entities, must not exceed 20% of its net assets at the end of the fiscal year preceding that for which compliance with the 60% requirement is assessed.

❑ Strategic investments

A new category of investments will henceforth be eligible for the purposes of the 60% requirement. In accordance with an investment policy adopted by the board of directors of the companies concerned and approved by the Minister of Finance, the Economy and Research, this category will include strategic investments made after the day of the Budget Speech in entities whose activities have a developmental impact on the Québec economy, provided their assets are less than $500 million or their net equity does not exceed $200 million.

These investments will be eligible for the purposes of the 60% requirement for a given fiscal year, to a maximum of 5% of the net assets of the company concerned at the end of the previous fiscal year. However, for the 2003 fiscal year of Capital régional et coopératif Desjardins, the maximum 5% of net assets will be established on the basis of the company's net assets as at March 1, 2003.

For greater clarity, the strategic investments that Fondaction will be able to make will be deemed, for the purposes of the 60% requirement, to be made in entities whose assets are less than $50 million or whose net equity does not exceed $20 million.

As for the strategic investments made by Capital régional et coopératif Desjardins, they will be deemed, for the purposes of the "regional" component of the 60% requirement imposed on this company, not to have been made in a entity located in one of the resource regions of Québec.[32]

❑ Temporary disinvestment

At present, for the purposes of the 60% requirement, average investments for a given fiscal year are determined by adding eligible investments at the end of the year to eligible investments at the beginning of the year and dividing the sum thus obtained by 2.

To prevent temporary disinvestment from affecting the balance of the investments made by the companies concerned, the procedure for calculating average investments for a fiscal year will be changed. For the fiscal year including the day of the Budget Speech and any subsequent fiscal year, average investments for the purposes of the 60% requirement will be calculated using the following formulas:

— for the fiscal year including the day of the Budget Speech:

$$\frac{A_t + B_t + C_t}{2}$$

— for a fiscal year beginning after the day of the Budget Speech:

$$\frac{A_t + B_t + C_t + C_{t-1}}{2}$$

32 The 60% requirement imposed on Capital régional et coopératif Desjardins stipulates that, in the course of each fiscal year, the proportion of the company's investments in eligible entities, entailing no security or hypothec, must represent, on average, at least 60% of its average net assets for the preceding year, and that a part representing at least 35% of that percentage must be invested in entities situated in the resource regions of Québec (Abitibi-Témiscamingue, Bas-Saint-Laurent, Côte-Nord, Gaspésie–Îles-de-la-Madeleine, Mauricie, Nord-du-Québec and Saguenay–Lac-Saint-Jean) or in eligible cooperatives.

where:

— element A_t represents the amount of eligible investments at the beginning of the fiscal year concerned;

— element B_t represents the amount of eligible investments at the end of the fiscal year concerned;

— element C_t represents the excess of the amount representing total disinvestment for the fiscal year attributable to eligible investments, over 2% of average net assets for the previous fiscal year;

— element C_{t-1} represents the amount calculated in accordance with the description for element C_t for the fiscal year preceding the fiscal year concerned.

❑ Investments in limited partnerships

At present, investments made by Capital régional et coopératif Desjardins in limited partnerships whose activities as a whole consist mainly in making investments are not considered investments in eligible entities for the purposes of the 60% requirement.

Considering the increasing use of limited partnerships as an investment vehicle, the *Act constituting Capital régional et coopératif Desjardins* will be amended to allow investments entailing no security or hypothec made in eligible entities through a limited partnership in which Capital régional et coopératif Desjardins has an interest, either directly or through another limited partnership, to be considered eligible investments for the purposes of the 60% requirement, up to an amount equal to the proportion of the company's direct or indirect interest in the limited partnership that made the investment.

This change will apply to investments made after the day of the Budget Speech in eligible entities by a limited partnership of which Capital régional et coopératif Desjardins is directly or indirectly a member.

❑ 60% requirement

In the coming months, the ministère des Finances, de l'Économie et de la Recherche will determine, in concert with the Fonds de solidarité des travailleurs du Québec, Fondaction and Capital régional et coopératif Desjardins, whether additional changes should be made to the 60% requirement.

4.2 Abolition of the transfer pricing penalty

Transfer pricing rules are aimed at protecting Canada's tax base by encouraging taxpayers to adhere to the arm's length principle. In accordance with this principle, the terms and conditions of transborder transactions concluded between a Canadian taxpayer and a non-resident related to the taxpayer must be comparable to those concluded between parties that are independent of one another.

When the conditions of transborder transactions do not adhere to the arm's length principle, adjustments may be made to the income of the Canadian taxpayer. In addition, federal tax provisions provide for a penalty when transfer pricing adjustments exceed a minimum threshold and the taxpayer had not made a reasonable effort to determine and use arm's length transfer prices. In brief, this penalty, whose rate is 10%, applies to net transfer pricing adjustments.

Transfer pricing rules have been included in the tax legislation of Québec and other provinces that administer a corporate tax system. However, the provisions pertaining to the penalty have not been included in the legislation of the other provinces.

In this context, for the purpose of fostering interprovincial neutrality, the tax legislation will be amended to abolish the 10% transfer pricing penalty retroactive to its effective date.

4.3 Clarifications concerning transfers from an Farm Income Stabilization Account

In the Budget Speech of November 1, 2001, the Québec government announced the tax consequences of agricultural enterprises participating in a new Québec farm income security program called the Farm Income Stabilization Account (FISA).

Briefly, contributions made to a FISA in a taxation year by an entity that operates an agricultural enterprise may be deducted in calculating the income derived from the operation of this enterprise by that entity for the taxation year. Consequently, the amounts withdrawn from a FISA by such an entity in a taxation year are added to the income derived from the operation of the agricultural enterprise by that entity for the taxation year in which the withdrawals were made.

However, the rules applicable to transfers provided for under the program were not specified when the introduction of the program was announced, since the Québec government wanted to see what the position of the federal government would be regarding the treatment of FISA for federal tax purposes. Now that discussions on this matter have been completed, the application details concerning authorized transfers from a FISA are explained below.

At present, the FISA program authorizes several transfers from a FISA account. For example, the FISA of a participant who is an individual may, under certain conditions, be transferred to a corporation or a partnership. In addition, the FISA of a participant that is a partnership may, when the partnership is dissolved, be divided into several accounts for the benefit of members of the partnership who are eligible for the program.

To limit the immediate tax consequences of transfers provided for under the FISA program, while complying with Québec's tax policy on transfers, the legislation will be amended.

❑ Transfers benefiting from a rollover

First, amendments will be made to allow the following tax-free transfers or rollovers:

— transfers from the FISA of an individual to a corporation;

— transfers from the FISA of an individual to his or her spouse or to a spouse trust at the time of the individual's divorce, separation or death.

For greater clarity, all transfers authorized under the FISA program, particularly transfers to a partnership, cannot benefit from a rollover for the purposes of the Québec tax system.

❑ Other transfers

Transfers that cannot benefit from a rollover will be treated according to existing rules. Therefore, such a transfer will give rise to a withdrawal from a FISA by the transferor, and the amount withdrawn will be included in calculating the income derived from an agricultural enterprise by the transferor for the taxation year in which the withdrawal was made.

The amount withdrawn from the FISA by the transferor will be deposited as a special contribution in the FISA of the transferee. For greater clarity, the amount transferred as a special contribution will not provide entitlement to a government contribution under the FISA program.

• Transfers giving rise to a deduction

Certain transfers may give rise, in calculating the business income of the transferee for a taxation year, to a deduction of the amount transferred as a special contribution to his or her FISA in that taxation year, as is currently allowed for amounts transferred from a Net Income Stabilization Account (NISA).

In addition, a deduction will be granted for the amount of the special contribution, in calculating the income of a partnership, in respect of the amount transferred to its FISA by one of its members, and, in calculating the income of a person, in respect of the amount transferred to his or her FISA following the dissolution of a partnership of which he or she was a member.

- **Transfers not giving rise to a deduction**

Transfers authorized under the FISA program, other than those that benefit from a rollover and those that give rise to a deduction, will not give rise to a deduction of the amount of the special contribution made.

However, a transfer that gave rise to a withdrawal from a FISA by the transferor and that is included in calculating the income derived from an agricultural enterprise by the transferor for the taxation year in which the withdrawal was made will not have to be included in calculating the income that the transferee derived from an agricultural enterprise for the taxation year in which he or she makes a withdrawal.

❑ Other application details

The annual statement issued by La Financière agricole du Québec in respect of the FISA of a participant who has transferred all or part of his or her FISA during a given taxation year must indicate the amount transferred from the account and the contact information of the beneficiary participant.

In addition, the annual statement issued by La Financière agricole du Québec in respect of the FISA of a participant who received a transfer during a given taxation year must indicate the amount transferred to the participant and the contact information of the transferor.

Lastly, the transfer of a FISA will not be considered a closure of the account for the purposes of the rules pertaining to source deductions.

❑ Application date

These changes will apply to transfers made from a FISA after November 1, 2001.

5. FEDERAL LEGISLATION AND REGULATIONS

5.1 Federal Budget Speech of February 18, 2003

On February 18, 2003, the federal Minister of Finance tabled, in the House of Commons, Supplementary Information, as well as a Notice of Ways and Means Motion to Amend the *Income Tax Act* and a Notice of Ways and Means Motion to Amend the *Excise Tax Act*. In this respect, Québec's tax legislation and regulations will be amended to incorporate some of the measures announced. However, the measures will be adopted only after the approval of any federal law arising from these notices of motion or the adoption of any federal regulation arising from the supplementary information, taking into account technical amendments that might be made prior to the approval of the law or the adoption of the regulation. These measures will apply as of the same dates as for the purposes of federal income tax.

5.1.1 Measures concerning the Income Tax Act

❑ Measures retained

Québec's tax legislation and regulations will be amended to incorporate, with adaptations based on their general principles, the measures relating to:

1. the presumption used to determine whether the amounts paid to the child or grandchild of a deceased annuitant qualify as a refund of premiums (BR 3);[33]

2. the medical expense tax credit (BR 4);

3. the tax credit for a severe and prolonged mental or physical impairment (BR 5);

4. the payment of retirement income under a money purchase provision of a registered pension plan (BR 7);

5. the capital gains rollover (BR 8);

6. the determination of the value of the standby charge in respect of an automobile made available to an employee (BR 9);

7. the exclusion of extended cab pick-up trucks from the definition of "automobile" (BR 10);

33 The references in parentheses correspond to the number of the budget resolution in the Notice of Ways and Means Motion to Amend the Income Tax Act tabled on February 18, 2003.

8. tax shelters (BR 17);

9. expanded eligibility for Class 43.1 for the purposes of the capital cost allowance.[34]

Moreover, although they do not require any legislative or regulatory amendment, the measures relating to the limits applicable to registered pension plans, deferred profit sharing plans and registered retirement savings plans (BR 6)[35] and to the maximum pension accrual rate for firefighters[36] will also be retained for the purposes of the Québec tax system.[37]

❑ Measures not retained

• Emergency fire and police vehicles (BR 11)

Under the tax legislation, when an employer makes an automobile available to an employee—that is, when an employer entrusts the automobile to the care and control of an employee and authorizes the employee to make personal use of the automobile or does not forbid such use—the employee must include the stand-by charge and the operating costs relating to the vehicle in the calculation of his or her income.

As a rule, the value of the stand-by charge of an automobile corresponds to 2% of the cost of the automobile for the employer, or to two-thirds of the cost of leasing the automobile, for each month that the automobile is made available to the employee. The value of the operating costs represents 50% of the value of the stand-by charge of the automobile or 17 cents (generally) per kilometre travelled for personal use, whichever option is chosen by the employee.

The term "automobile" means, for the purpose of the tax legislation, a motor vehicle that is designed or adapted primarily to transport individuals on public roads and streets and that seats no more than nine persons, including the driver. Vehicles such as ambulances, taxis, buses and, in certain cases, pick-up trucks and vans, do not qualify as automobiles.

34 The Budget Plan 2003, Department of Finance Canada, page 338.

35 See also the regulatory amendments in The Budget Plan 2003, Department of Finance Canada, pages 327 and 328.

36 The Budget Plan 2003, Department of Finance Canada, page 329.

37 In the Budget Speech of April 26, 1990, it was announced that Québec tax legislation and regulations would be amended to ensure that the rules introduced by the reform of tax assistance for retirement savings were the same as those applicable under the federal taxation system. Given the complexity of the provisions relating to this reform for individuals, employers and tax authorities alike, it was specified that the federal rules would not be incorporated into Québec tax legislation and regulations but that the legislative process used would refer thereto.

When a motor vehicle that is not an automobile is made available to an employee, the value of the benefit thus conferred must be included in the calculation of the employee's income. That value corresponds, in particular, to the cost of leasing a comparable vehicle, plus all related operating expenses. However, if the vehicle is essential to the employer's business operations and the only non-commercial use of the vehicle is as a means of transportation between the employee's residence and the employer's place of work, the value of the benefit can be determined on the basis of the per-kilometre amount for equivalent automobile transportation.

Currently, the rules governing the taxation of the value of benefits relating to the use of an automobile are the ones that apply to an emergency-response vehicle made available to a member of a police force or a firefighting service.

These rules would no longer apply to such vehicles if the budget resolution proposing to exclude certain emergency-response vehicles from the definition of the term "automobile" were integrated into the Québec taxation system. However, integration of the resolution would not prevent application of the rules relating to the taxation of the fair market value of the benefits granted to an employee, as these rules apply when the vehicle made available to an employee is not an automobile within the meaning of the tax legislation.

As a result, Budget Resolution 11 will not be retained as proposed.

Given that the need to intervene rapidly and ensure a vigilant, functional presence, even outside regular working hours, means that a vehicle must be made available to certain members of police forces and firefighting services, amendments will be made to the tax legislation to provide for the circumstances in which these employees will be exempted from including, in the calculation of their income, the value of benefits relating to the use of a vehicle made available to them.

More specifically, the tax legislation will be amended to provide that, as of the 2003 taxation year, a member of a police force or a firefighting service will not be required to include, in the calculation of his or her income from an office or employment, the value of benefits relating to the use of a vehicle made available by his or her employer or a related person, where the following conditions are met:

— a written directive from the employer limits the personal use of the vehicle and specifies that it must be returned to the employer during extended absences;

— the vehicle made available to the employee is clearly identified or, if not, has special equipment enabling a rapid response to be made to events involving public security.

- **Other measures not retained**

Some other measures have not been retained because they do not correspond to the features of Québec's tax system or because Québec's tax system does not contain corresponding provisions. This applies to the measures relating to the National Child Benefit supplement (BR 1), the Child Disability Benefit (BR 2), qualified limited partnerships,[38] the small business deduction (BR 12, BR 13, BR 14 and BR 15) and the extension of the tax credit for flow-through mining expenditure (BR 20).

Still other measures have not been retained because Québec's tax system is satisfactory in this regard. This applies to the measures relating to the elimination of the federal capital tax (BR 16) and the film or video production services tax credit (BR 19).

❑ Subsequent announcements

- **Harmonization of administrative provisions (Standardized Accounting)**

Briefly, the federal measures relating to the harmonization of administrative provisions (BR 18) concern accounting, interest and penalties, and are aimed at establishing an integrated set of rules with a view to simplifying the application of the federal taxation system.

In recent years, the Québec government has also been pursuing efforts to streamline the administration of its taxation system and is working in partnership with the business sector to seek advice on matters of regulatory streamlining and tax relief. For example, the Minister of Revenue was mandated by the Premier, in March 2002, to set up and chair a task force composed mainly of businesspeople with a view to proposing concrete measures to simplify the application of the Québec taxation system. It should also be mentioned that in Québec, the *Act respecting the ministère du Revenu* already provides for an integrated set of rules that cover a substantial portion of the administrative aspects relating to the application of Québec tax laws.

In this context, the ministère des Finances, de l'Économie et de la Recherche, in conjunction with the ministère du Revenu, is currently in the process of analyzing the federal measures relating to the harmonization of administrative provisions, and the decisions made in this regard will be announced later.

38 The Budget Plan 2003, Department of Finance Canada, page 330.

- **Resource sector**

The federal budget documents[39] indicated that a technical paper on the resource sector would be released by the Department of Finance of Canada shortly after the Budget.

This document, which was announced in a news release[40] issued on March 3, 2003, provides details on proposed changes designed to improve the taxation of Canada's resource income. The news release also indicates that the proposed changes will be reviewed with the industry and the provinces prior to the tabling of the legislation.

Given that some information is still unavailable and that the proposals are still at the preliminary stage, the decision as to whether to retain the proposed measures will be announced later.

5.1.2 Measures concerning the Excise Tax Act

The measures concerning the *Excise Tax Act* will not be retained because the Québec system does not contain corresponding provisions or is satisfactory in this regard.

5.2 News releases issued by the federal Department of Finance

5.2.1 News release 2002-107 of December 20, 2002

On December 20, 2002, the federal Minister of Finance released a package of draft technical amendments to the *Income Tax Act*. Essentially, these draft amendments correct or clarify the application of existing income tax provisions, to ensure that underlying strategic objectives are met.

In general, Québec's tax legislation and regulations will be amended to incorporate, with adaptations based on their general principles, most of these technical amendments. However, they will be adopted only after the approval of any federal law or the adoption of any federal regulation arising from these draft amendments, taking into account amendments that might be made prior to the approval of the law or the adoption of the regulation, and will generally apply on the same dates as for the purposes of federal income tax.

39 The Budget Plan 2003, Department of Finance Canada, pages 146 and 337.

40 Federal Department of Finance news release 2003-013.

❑ Measures not retained

However, some of these technical amendments will not be retained because they do not correspond to the features of Québec's tax system or because Québec's tax system does not contain corresponding provisions or is satisfactory in this regard. The federal measures not retained relate to:

— elements that are deductible for the purposes of calculating income or loss from a particular source or from a source in a particular place (1);[41]

— corrections made to the French version of the provisions defining what constitutes a forgiven amount for the purposes of taxable benefits deriving from the forgiveness of a debt (2 and 8(1));

— the technical corrections made to certain provisions relating to recaptured depreciation and terminal loss (6(1) and 12(3));

— a terminological amendment made to a provision concerning shareholder benefits (8(2));

— the addition of the concept of "fault" to the English version of the provisions concerning limited partners (15(3) and 40(2));

— the terminological amendment concerning "covenants" and the clarification concerning "real servitudes" under the *Civil Code of Québec* (16, 47(3) in part, 47(7) and 51(4) in part);

— the amendment made to the English version of the exception to principal residence rules (22);

— the correction of certain references and grammatical errors made in the provisions relating to exploration and development expenses (27(2) to(6) and 27(10));

— the consequential amendments made to the definitions of "Canadian development expense" and "cumulative Canadian development expense" (28);

— the consequential amendments made to the definitions of "Canadian oil and gas property expenses" and "cumulative Canadian oil and gas property expenses" (29);

— the correction of an editorial error in the English version of subparagraph 69(1)b)(iii) of the *Income Tax Act* (31(1));

41 The references in parentheses correspond to the number of the clause of the draft bill released on December 20, 2002.

— specific provisions applicable to a corporation formed on an amalgamation, due to the presence of a generic clause in the *Taxation Act* (35(1) to (4));

— the terminological amendment made to the definition of "pre-1986 capital loss balance" (49(2));

— the amendment of the French version of the tax credit for a dependant having a severe and prolonged mental or physical impairment to include a phrase that was inadvertently deleted (53);

— the amendments concerning the education tax credit (55);

— the amendments concerning the unused tuition and education tax credits (56);

— the clarification concerning a notional amount of interest calculated on the averaging of a retroactive lump-sum payment (58);

— the amendment of the English version of the definition of "split income" for the purposes of calculating tax on split income (59);

— the amendments made to the provisions relating to the small business deduction (61);

— the amendments made to the provisions relating to the manufacturing and processing profits deduction (62);

— the amendments made to the provisions relating to the Canadian film or video production tax credit (63);

— the repealing of the UI premium tax credit (65) and the consequential amendments (35(5), 89, 99(2) and 99(3));

— the amendment concerning the distribution, among the members of a partnership, of political contributions (66(2));

— the amendments concerning the recapture of the investment tax credit (66(3) and (4));

— the amendment made to the definition of "approved share" for the purposes of the labour-sponsored funds tax credit (67);

— the amendments made to the calculation of the refundable dividend tax on hand (70);

— a technical amendment made to the French version of paragraph 132.11(1)c) of the *Income Tax Act* (71(2));

- the amendments relating to the reduction in corporate tax rates (74(1) and 75(2));
- an amendment made for the purposes of Part XIII tax (79);
- the amendment concerning the tax payable on income earned by a trust governed by a registered retirement savings plan from non-qualified investments (81(6));
- the correction of an error in the English version of the definition of "annuitant" for the purposes of the rules relating to registered retirement income funds (84(1));
- the clarification concerning capital gains and losses for the purposes of calculating the tax payable on income earned by a trust governed by a registered retirement income fund from non-qualified investments (84(5));
- the reformulation of the French version of the definition of "relevant contribution" (86(1));
- the amendment concerning the communication of information in respect of registered Canadian amateur athletic associations (88(9));
- the inclusion of an additional reference for the purposes of reducing instalments (90);
- the terminological amendment made to the French version of subsection 162(6) of the *Income Tax Act* (97);
- the amendment concerning the penalty for false statements or omissions to reflect the new quarterly calculation of the GST credit (98);
- the amendments made in respect of the taxation of large corporations (101 and 102);
- the special tax payable by registered charities (104);
- the amendment made in respect of the financial institutions capital tax (105);
- the amendments made to Part VI.1 of the *Income Tax Act* (106 and 107);
- the registration conditions of labour-sponsored venture capital corporations (108);

— Part XI tax relating to certain property acquired by a trust governed by, among other things, a registered retirement savings plan (109);

— the amendments made to Part XII.2 of the *Income Tax Act* (110 to 112);

— the recovery of the labour-sponsored funds tax credit (113);

— Part XIII tax relating to the income earned in Canada by non-residents (114 and 115);

— the amendment made to a provision relating to the keeping of books and records (116(1));

— the amendments made to provisions concerning the provision of information (117);

— a terminological amendment made to the definition of "scientific research and experimental development" (118(8));

— a terminological correction made to the French version of subparagraph 256(6)b)(ii) of the *Income Tax Act* (121(1));

— the amendment made to the *Federal-Provincial Fiscal Arrangements Act* (125);

— the amendments made to the *Income Tax Regulations* concerning foreign banks and non-resident insurers (sections 2 and 3 of Appendix A);

— the amendments made to the *Income Tax Regulations* concerning vessels (Appendix C);

— the amendments made to the *Income Tax Regulations* concerning Capital régional et coopératif Desjardins (Appendix H).

❑ Clarifications in respect of some of the measures retained

Some of the technical amendments that will be incorporated into Québec's tax legislation will undergo specific changes, whereas others will entail consequential amendments to various Québec tax measures. These amendments will apply as of the same dates as will the federal amendments from which they arise.

Thus, the amendment allowing an employee to deduct certain amounts paid on his behalf which, had he received them, would have been required to be included in computing his income (4(2)), will be adapted so as to make it applicable to the tax credit respecting dues to a professional association or a union.

The amendment relating to the tax credit for tuition fees (54) will also be adapted to make it applicable to tuition fees paid to a educational institution in the United States or to a university outside Canada.

As for the amendments to the overseas employment tax credit (60), they will be applied to the deduction for workers employed abroad and adapted to the specific features of this deduction.

The amendments concerning the definition of "disbursement quota" (88(2) and (3)), the reasons for revoking the registration of an entity (88(5) to (7)) and the accumulation of property of a registered charity (88(8)) will be extended to recognized arts or political education organizations.

Moreover, the amendment introducing new rules in matters of gifts and contributions (118(15)) will be adapted as concerns the concept of "eligible amount of a gift" to ensure that the eligible amount of a gift of the bare property of cultural property or a work of art is equal to the amount by which the fair market value of the property that is the subject of the gift, as determined by the rules established in this respect, exceeds the amount of the advantage in respect of that gift, other than a usufruct or a right of use.

Similarly, changes will be made to certain rules specific to Québec which apply to the deduction and the tax credit for gifts.

Thus, the rule aimed at increasing by 25% the fair market value of the gift of a work of art to a Québec museum-related institution will be amended to make this increase applicable in respect of the eligible amount of such a gift.

Moreover, the presumption applicable when a donee alienates a previously gifted work of art within the stipulated period will be amended to ensure that the amount of the consideration received by virtue of this alienation or the fair market value of the work, whichever is lower, is deemed to be, for the purposes of the deduction for gifts or of the definition of "total charitable gifts", as the case may be, the fair market value of the work for the purposes of calculating the eligible amount of the gift.

Finally, although they do not require any legislative or regulatory amendment, the measures relating to tax assistance for retirement savings (25, 81(1) to 81(5), 84(2), 84(3), 85(1), 85(2) and Appendix I) will also be retained for the purposes of the Québec tax system.[42]

❑ Subsequent announcements

An announcement will be made later with regard to measures relating to the calculation of interest on assessments in respect of personal and joint and several liability (91, 92 and 94 to 96) and to interest on an assessment in respect of an excess refund (93).

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42 See note 37.

5.2.2 News release 2002-108 of December 20, 2002

On December 20, 2002, the federal Minister of Finance announced, in a news release, draft amendments to the goods and services tax (GST) and to the harmonized sales tax.

In accordance with the principle of substantial harmonization of the Québec sales tax (QST) and GST systems, Québec's tax system will generally be harmonized with the federal tax system, subject to Québec's specific features and taking the provincial context into account.

Thus, the QST system will be amended to incorporate, with adaptations based on its general principles, the federal legislative and regulatory measures relating to agents of suppliers, applications for the GST rebate in respect of new residential units built by an individual and artists' representatives.[43]

However, the regulatory measure concerning the federal book rebate will not be retained, because the QST system is satisfactory in this regard.

The harmonization measures retained will be adopted only after the approval of any federal law or the adoption of any federal regulation arising from news release 2002-108, taking into account technical amendments that might be made prior to the approval of the law or the adoption of the regulation, and will apply on the same dates as those provided for in the federal taxation system.

5.3 Additional harmonization measure

In accordance with the commitments in respect of its participation in the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions and in its capacity as a member of the Organisation for Economic Cooperation and Development (OECD), the Canadian government adopted the *Act respecting the corruption of foreign public officials and the implementation of the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, and to make related amendments to other Acts*[44] (*Corruption of Foreign Public Officials Act*), which amends the *Income Tax Act*.

43 As concerns the federal measure regarding the permanent exemption of speech-language pathology services, the harmonization of the QST system with the GST system in this respect has already been announced in Bulletin d'information 2003-1.

44 S.C. 1998, c. 34.

More specifically, the *Income Tax Act* has been amended to add the corruption of a foreign public official to the offences listed in section 67.5 of this Act, to ensure that no deduction is made in computing a taxpayer's income in respect of an outlay made or expense incurred for the purpose of doing anything that is an offence under section 3 of the *Corruption of Foreign Public Officials Act*.

Given that the Québec government subscribes to the objectives set by the OECD in these matters, Québec's tax legislation will be harmonized with the federal tax legislation in this respect.

This amendment will apply as of February 14, 1999.

6. ABOLITION OF THE REGISTRATION DUTIES FOR ELECTRIC ROAD VEHICLES

The use of electric rather than conventional road vehicles, which are equipped solely with an internal-combustion engine, helps reduce air pollution emissions and greenhouse gases.

Thus, in order to promote the use of electric road vehicles, the government will eliminate the registration duties currently applicable thereto. More specifically, the duties payable for registration of such vehicles and the right to put them into operation will be abolished. The same applies to the annual duties payable for the retention of this right.

For greater clarity, the duties payable will comprise the additional duty applicable in respect of certain road vehicles whose value exceeds $40 000.

For the purposes of this measure, the expression "electric vehicle" refers to a battery-powered electric vehicle, a fuel cell vehicle or a hybrid vehicle, that is, a vehicle whose energy output is ensured by the combination of a heat engine and an electric motor.

This measure will apply as of April 1, 2003. However, due to the time required by the Société de l'assurance automobile du Québec for its implementation, duties in respect of electric vehicles will be temporarily payable after March 31, 2003, but will subsequently be reimbursed. The duties payable in respect of such vehicles prior to April 1, 2003 will also be reimbursed, provided they have been paid in respect of the right to operate the vehicles after March 31, 2003.

Section 2

Expenditure Measures

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1. A MORE CARING SOCIETY

1.1 Support to SMEs for the implementation of work-family measures

To help balance work and family life, a new temporary support program for SMEs of 200 employees or less will be implemented in order to encourage the latter to instate a work-family policy for their employees.

The aim of this program is to fund the development and dissemination of a policy for work-family balance (for example, a four-day work week, flexible hours, work-time organization, parental leave, special leave for family events and on-site child-care centres) and a plan of action within the firm. Eligible expenses will include:

— the costs of developing and implementing the policy and the plan of action (for example, the wages of the personnel who draw up the policy, the outsourcing of related contracts and human resources management).

The firm's eligible expenditures will be funded in full by the Québec government to a maximum of $5 000. Beyond this amount, the government will fund 50% of the firm's eligible expenditures to a maximum of $100 per employee. For example, a firm with 100 employees could be entitled to government funding of up to $15 000.

This program will receive a budgetary envelope of $10.0 million in 2003-2004 and $20.0 million in 2004-2005. For this purpose, additional funding in an equivalent amount will be granted to the ministère de la Famille et de l'Enfance in 2003-2004 and 2004-2005. The amounts required for 2003-2004 will be drawn from the contingency fund.

1.2 Priority investments in the biomedical sector

Increased enrolment in medicine, pharmacy and nursing programs means that universities offering such programs must make considerable outlays, mainly in terms of adding more space, retrofitting and renovating existing buildings. In this context, $175 million will be invested in these institutions, namely, Université Laval, McGill University, the Université de Montréal and the Université de Sherbrooke, to ensure that students receive quality education in these fields.

A further $50 million will be invested in building a new biology wing at the Université du Québec à Montréal, developing infrastructures for the new undergraduate biotechnology programs at the Université de Sherbrooke, and carrying out the refurbishments required on certain campuses of the Université du Québec.

To finance these initiatives, additional funding of $16.8 million has been allocated from the budgetary envelope of the ministère de l'Éducation for 2004-2005.

1.3 Better equipped schools

❑ Technical and vocational training, continuing education and increased labour supply in the regions

According to the most recent estimates, close to 350 000 jobs will need to be filled by 2005. Most of these positions will require extensive training, and the employees who fill them will be obliged to constantly upgrade their skills.

The education system must accommodate more and more people in training programs leading to specialized occupations that call for continuing education, which requires increased admission and operating capabilities in certain fields of technical and vocational training and university education. The parameters for groups of students in remote regions must also be adjusted, thereby encouraging young people to stay or settle in these regions.

To fulfil the new labour market requirements in all regions of Québec, additional funding of $42.3 million in 2003-2004 and $50.1 million as of 2004-2005 will be granted to the ministère de l'Éducation.

❑ New impetus for school libraries

In the realm of education, investments are required to maintain and upgrade the computer equipment in Québec schools in order to sustain the ratio of 6.5 students per machine, and to implement a plan targeting a maximum ratio of 10 classroom students per Internet-connected computer.

School libraries will also require greater investment if they are to play a key role in developing the various competencies in the Québec Education Program under the curriculum reform, in particular by making a wide variety of library resources and literary works available.

All told, these measures will require investments of $131 million. For this purpose, funding of $1.4 million in 2003-2004 and of $13.9 million in 2004-2005 will be allocated to the ministère de l'Éducation.

❑ School transportation

The school boards must reach new agreements for the coming year with school transportation companies.

Amounts from the envelope of the ministère de l'Éducation have been earmarked for this purpose for 2003-2004. As needed, additional funding may be drawn from the contingency fund.

1.4 National strategy to combat poverty

The Québec National Assembly has adopted legislation aimed at combating poverty and social exclusion. The Act came into force last March.

The Act introduces a national strategy to combat poverty and social exclusion which consists of a set of actions to be implemented by the government and its partners with a view to countering poverty and facilitating social inclusion. The following measures are the first step in the implementation of this strategy.

❑ Extension of the $100-exemption from employment-assistance benefits to all support payments received for a dependent child

Currently, support payment income received for dependent children over the age of four is subtracted from any employment-assistance benefits granted. The Employment-Assistance Program will be changed to exempt the first $100 in support payments from the calculation of the employment-assistance benefit for all families with a dependent child, thereby increasing the benefit paid by the same amount.

In December 2001, approximately 18 100 households received a monthly average of $230 in support payment income. Of this number, some 6 000 households benefited from the exemption of $100 per month because the family had at least one dependent child under the age of five.

As of January 1, 2004, the exemption of a maximum of $100 in child support payments will be extended to all families with a dependent child, thereby benefiting some 12 000 families.

For this purpose, the ministère de l'Emploi et de la Solidarité sociale will receive additional funding of $3.6 million in 2003-2004 and $14.4 million in 2004-2005.

❑ Renewal and improvement of the Solidarité jeunesse program

Since the fall of 2000, the *Solidarité jeunesse* program has been available to all young people under 21 years of age who apply and are eligible for employment assistance. *Solidarité jeunesse* gives young people aged 18 to 20 the opportunity to:

— take part in training activities;

— go back to school;

— find work thanks to the support of centres locaux d'emploi (local employment centres), Carrefour Jeunesse-Emploi and specialized youth organizations.

Between November 1, 2000 and July 24, 2002, 7 792 young people had successfully participated in the *Solidarité jeunesse* program. Of the 1 286 youth who have completed the program in the past 18 months, at least 81% are currently financially independent or undergoing training with Emploi-Québec.

To cover the costs of renewing the *Solidarité jeunesse* program and gradually extending it to young people aged 21 to 24, the ministère de l'Emploi et de la Solidarité sociale will receive additional funding of $15.0 million in 2003-2004 and again in 2004-2005.

❑ Financing of the réseau québécois du crédit communautaire

Projects to develop and implement Québec micro-credit initiatives are managed by community loan funds and loan circles.

These projects are intended mainly to promote the financial self-sufficiency of persons grappling with social and economic exclusion by enabling them to develop skills or start up a small business (e.g. training, self-employment, etc.). Without assistance, the organizations set up to support these people will run out of operating funds.

To finance the operating expenses of micro-credit organizations, additional funding of $0.9 million will be granted to the ministère de l'Emploi et de la Solidarité sociale in 2003-2004 and again in 2004-2005. The amounts required for 2003-2004 will be drawn from the contingency fund.

❑ Extension of the Achat-rénovation d'immeubles communautaires program

The *Achat-rénovation d'immeubles communautaires* program is the community building purchase/renovation component of the Québec-Municipalites infrastructure program which was set up under the public-sector investment acceleration plan announced in the 2002-2003 Budget Speech.

This program aims to support the actions of community organizations, in particular by enabling them to pool their services and significantly reduce their operating costs. It targets legally incorporated non-profit community organizations, as well as municipalities that want to make a building available to such organizations.

Given its success, the *Achat-rénovation d'immeubles communautaires* program will be extended by three years thanks to the injection of an additional annual sum of $10 million for the 2003-2004, 2004-2005 and 2005-2006 fiscal years.

The impact on the government's spending will be $1.4 million in 2003-2004 and $2.8 million in 2004-2005. Accordingly, the ministère de l'Emploi et de la Solidarité sociale will receive an equivalent amount in 2003-2004 and in 2004-2005.

❑ More financial support for community organizations

In July 2001, the Québec government adopted the Policy on the Recognition and Support of Community Action, for which additional funding of $50 million will be granted to ensure its implementation.

To increase the amount of financial support provided by the government to community organizations, an additional amount of $10.0 million will be granted annually as of 2003-2004. Accordingly, the funding of the ministère de l'Emploi et de la Solidarité sociale will be increased by an equivalent amount in 2003-2004 and in 2004-2005. The amounts required for 2003-2004 will be drawn from the contingency fund.

❑ Implementation of the Fonds québécois d'initiatives sociales

The coming into force of the *Act to combat poverty and social exclusion* provides for the creation of the Fonds québécois d'initiatives sociales. To kick-start the financing of this new fund, the government will inject $40 million over three years, i.e. $20 million in 2003-2004 and $10 million per year thereafter, in addition to transferring the balance of the Fonds de lutte contre la pauvreté par la réinsertion au travail (fund to combat poverty through reintegration into the labour market), i.e. a further $25.6 million. The total contributions paid into the new fund, that is, $65.6 million over three years, will provide financing for the national strategy to combat poverty and social exclusion.

The fund will be used to finance a series of social initiatives, including:

— projects proposed in the wake of the *Rendez-vous national des régions* that are intended to support actions at the regional level;

— employment-oriented projects supported by the former Fonds de lutte contre la pauvreté par la réinsertion au travail for persons who are the furthest removed from the labour market;

— projects carried out under a partnership between the Québec government and the Fondation Lucie et André Chagnon aimed at enhancing child welfare.

For this purpose, the funding allocated to the ministère de l'Emploi et de la Solidarité sociale will be increased by $20.0 million in 2003-2004 and $10.0 million in 2004-2005.

FUNDING OF THE FONDS QUÉBÉCOIS D'INITIATIVES SOCIALES IN PARTNERSHIP WITH THE FONDATION LUCIE ET ANDRÉ CHAGNON
(in millions of dollars)

	2003-2004	2004-2005	2005-2006	Total
Fonds québécois d'initiatives sociales				
Contribution of the government to a fund in partnership with the Fondation Lucie et André Chagnon[1]	5.0	10.0	10.0	25.0
Other initiatives	15.0	–	–	15.0
Projected balance of the Fonds de lutte contre la pauvreté par la réinsertion au travail at 31 March 2003	25.6	–	–	25.6
Total – Fonds québécois d'initiatives sociales	**45.6**	**10.0**	**10.0**	**65.6**
Contribution of the Fondation Lucie et André Chagnon to a fund in partnership with the government[1]	5.0	10.0	10.0	25.0
Total	**50.6**	**20.0**	**20.0**	**90.6**

1 Under this partnership agreement, for each dollar contributed by the private sector, the government will make a matching contribution to encourage the implementation of initiatives to prevent child poverty.

Partnership with the Fondation Lucie et André Chagnon

An organization will be set up to encourage community initiatives aimed at preventing poverty through early intervention in respect of disadvantaged children and parents.

Thanks to an agreement between the Fondation Lucie et André Chagnon and the Québec government, the new organization thus created will receive government funding, through the Fonds québécois d'initiatives sociales, in the amount of $25 million over three years, broken down as follows: $5 million in 2003-2004 and $10 million for 2004-2005 and 2005-2006. The Fondation Lucie et André Chagnon has pledged to match this contribution of $25 million.

These investments will enable concerted, intensive and ongoing action to be taken in respect of needy young families to help them overcome the difficulties they encounter, leave poverty behind them for good and, above all, ensure that it is not passed on from one generation to the next. The activities of this new organization are carried out as part of the national strategy to combat poverty and social exclusion.

The 2003-2004 Budget measures will provide an additional amount of nearly $160 million to support the fight against poverty and social exclusion over three years.

FINANCIAL IMPACT OF THE MEASURES OF THE NATIONAL STRATEGY TO COMBAT POVERTY AND SOCIAL EXCLUSION
(in millions of dollars)

	2003-2004	2004-2005	2005-2006	Total
2003-2004 Budget measures				
Extension of the $100-exemption from employment-assistance benefits to all support payments received for a dependent child	3.6	14.4	14.4	32.4
Renewal and improvement of the *Solidarité Jeunesse* program	15.0	15.0	15.0	45.0
Financing of the Réseau québécois du crédit communautaire	0.9	0.9	0.9	2.7
Extension of the *Achat-rénovation d'immeubles communautaires* program	1.4	2.8	4.2	8.4
Support for community organizations	10.0	10.0	10.0	30.0
Sub-total	**30.9**	**43.1**	**44.5**	**118.5**
Implementation of the Fonds québécois d'initiatives sociales	20.0	10.0	10.0	40.0
Total	**50.9**	**53.1**	**54.5**	**158.5**

1.5 More accessible housing

In the 2002-2003 Budget Speech, the government announced investments of nearly $500 million for the construction of 13 000 low-rental and affordable housing units and the renovation of 27 000 existing units.

To step up these actions, the government is announcing an additional investment of $270 million in four areas:

— pursuing and stepping up the construction of more than 20 200 housing units over five years;

— forestalling the immediate effects of the housing shortage;

— improving the quality of life of seniors and persons requiring accessible housing;

— continuing home improvement efforts for the benefit of 17 000 households.

All told, these new measures will benefit some 54 000 households throughout Québec, mainly in municipalities where the housing shortage is most acute, that is, Québec City, Montréal and Gatineau.

Thanks to the measures announced in the last two budgets, the Société d'habitation du Québec, in conjunction with the municipalities and other partners, will be able to put 20 200 new housing units on the market over the next five years, including 4 362 in 2003 and 5 468 the following year.

In order to implement the measures announced, the sums allocated to the ministère des Affaires municipales et de la Métropole for the Société d'habitation du Québec will be increased by $16.5 million in 2003-2004 and $29.1 million in 2004-2005. The amounts required for 2003-2004 will be drawn from the contingency fund.

1.6 Enhancing environment quality

❑ Remediation of abandoned mine tailings sites requiring priority action

Abandoned mine tailings sites, which can contain lead, constitute a public health hazard. The amount needed to decontaminate the 16 sites requiring priority action is assessed at $46 million over the next 15 years.

It is estimated that the remediation work involved will result in the job-creation equivalent of 117 person-years over the next three years. This initiative will reduce the environmental and health threat posed by the pollution of these sites, and contribute to the implementation of the Québec water policy.

To this end, an envelope of $3.5 million will be allocated to the ministère des Ressources naturelles in 2003-2004 and 2004-2005. The amounts required for 2003-2004 will be drawn from the contingency fund.

❑ Cleanup and regreening of the Saint-Charles river

As part of the implementation of the Québec water policy, investments will be made in support of the municipalities to recondition water treatment and supply infrastructures, including the Saint-Charles river cleanup project.

It should be recalled that the first phase of this project consisted in the construction of five retention ponds at a cost of $45 million. Phases II and III of the project call for the construction of new retention ponds and the replanting of sections of the riverbank that are still paved. The costs of carrying out phases II and III are assessed at $97.2 million, including $83.7 million for the water treatment infrastructures and $13.5 million for replanting the riverbank. The Québec government will assume part of the infrastructure costs, i.e. close to $52 million, with the balance being financed by the Ville de Québec. Work is scheduled to start in 2003-2004.

A budgetary envelope of $1.6 million for the carrying out of phases II and III of the project will be granted to the ministère des Affaires municipales et de la Métropole as of 2005-2006.

❑ Agence de l'efficacité énergétique

The government intends to prolong and reinforce the energy efficiency promotion program administered by the Agence de l'efficacité énergétique, thereby generating annual savings of $59 million, in particular for establishments in the health and education sectors.

Funding of $4.7 million will be allocated for this purpose to the Agence de l'efficacité énergétique as of 2003-2004. The amounts required for 2003-2004 will be drawn from the contingency fund.

❑ Biogas development and marketing program

Sanitary landfill sites produce methane, one of the principal greenhouse gases (GHGs). The government is preparing to adopt a draft regulation making it compulsory for landfill sites to collect and burn the biogases they produce. The aim of this measure is to burn over 70% of all methane generated by residual materials in Québec by 2010 and thereby reduce GHG emissions by approximately 2.7 million tonnes of carbon dioxide equivalent.

However, it is possible to do better by using biogases as an alternative source of income. The government will thus support promoters who carry out biogas development and marketing projects.

For this purpose, additional funding of $0.6 million in 2003-2004 and $1.5 million in 2004-2005 will be allocated to the ministère des Ressources naturelles. The amounts required for 2003-2004 will be drawn from the contingency fund.

1.7 Increased support for our cultural vitality

❑ Film and audiovisual production policy

In July 2000, the Minister of Culture and Communications mandated a steering committee to make proposals with a view to drafting a film and audiovisual production policy. The proposals set out in the committee's report were submitted to the film and audiovisual production industry as well as to the public at large on the occasion of public hearings held during the month of September 2002, which drew some 40 associations, organizations and individuals. The general principles and objectives generated broad consensus and received the support of all participants.

The resulting policy is based on four general principles:

— the promotion of Québec's cultural identity;

— the defence of the importance of creation;

— the public's rightful place at the core of the policy;

— the consolidation and visibility of the industry.

The main components of this policy will be unveiled by the Minister responsible. In this respect, additional funding of $20.0 million will be granted to the ministère de la Culture et des Communications as of 2003-2004. The amounts required for 2003-2004 will be drawn from the contingency fund.

❑ Conseil des arts et des lettres (CALQ)

The government is reaffirming its determination to support creation in the various disciplines of literature and the arts and to foster the development of promising young creators by injecting an additional $12.0 million per year into the budget of the Conseil des arts et des lettres du Québec. A further $1.9 million will be allocated to maintain and reinforce the unique visibility of Québec's major cultural ensembles on the international scene by providing financial support to the Orchestre symphonique de Québec and the Grands Ballets canadiens de Montréal.

Consequently, recurring annual funding of $13.9 million will be allocated to the ministère de la Culture et des Communications, $4.0 million of which will be drawn from the contingency fund for 2003-2004.

❑ Québec's contribution to TV5

The only French-language station that can be picked up the world over, the TV5 television station is a formidable vehicle for the dissemination of culture, in particular Québec culture, both in French-speaking nations and in other countries where TV5 reaches countless viewers who are interested in our cultures.

TV5 Québec Canada's mission is to televise, in Québec and elsewhere in Canada, French-language broadcasts from partner stations of TV5 Monde, as well as television shows produced in Québec and the rest of Canada.

In order to continue exporting our programs via TV5 and generate major economic spinoffs for Québec's audiovisual industry, the Québec government intends to increase its share of the financing of TV5 Monde and TV5 Québec Canada by $1.7 million.

Accordingly, funding of $1.7 million will be allocated to the ministère de la Culture et des Communications as of 2003-2004. The amounts required for 2003-2004 will be drawn from the contingency fund.

❑ The Place des Arts and the Grand Théâtre de Québec

The Place des Arts de Montréal cultural facility currently comprises the Salle Wilfrid-Pelletier, the Théâtre Maisonneuve, the Théâtre Jean-Duceppe, the Studio Théâtre, the Musée d'art contemporain de Montréal and a versatile studio.

As of 2003-2004, $35 million will be invested in the construction of a creation and production centre designed to house cultural creation and production organizations, particularly dance companies. This will improve creation conditions for dancers and choreographers, fulfil training and professional development needs and consolidate Montréal's status as an international dance capital.

The current premises of the Grand Théâtre de Québec prevent it from adequately playing its role as a hub of artistic life in Québec and promoting the growth of arts companies as it has done since 1971.

As of 2003-2004, an investment of $25 million will be made for the purpose of carrying out work to expand the surface area of the building and renovate the Salle Octave-Crémazie and the Salle Louis-Fréchette. This renovation and refurbishment work will enable both venues to remain fully functional, while upgrading the attendant equipment.

To this end, $8.0 million in funding will be granted to the ministère de la Culture et des Communications as of 2006-2007.

❑ Agents de migration Place aux jeunes – Desjardins project

At the Rendez-vous national des régions, the government announced the improvement of the Place aux jeunes program by implementing the *Agents de migration Place aux jeunes – Desjardins* project. A component of the Place aux jeunes program, which has existed for a dozen years, this new measure will allow for the hiring of permanent staff, including 34 migration officers in 14 of Québec's administrative regions and two liaison officers in urban centres. The duties of these officers will include establishing links between new graduates and businesses in the regions.

To this end, additional funding of $0.5 million for both the 2003-2004 and 2004-2005 fiscal years will be granted to the ministère du Conseil exécutif and earmarked for the Secrétariat à la jeunesse. The amounts required for 2003-2004 will be drawn from the contingency fund.

❑ Increased assistance for the francization of the workplace

The government intends to step up the measures designed to encourage the francization of the workplace. Added resources will help support businesses in the francization process and increase the number of French courses offered in the workplace, especially to allophones.

The Office québécois de la langue française will receive funding of $2.0 million as of 2003-2004. The amounts required for 2003-2004 will be drawn from the contingency fund.

1.8 Sports and recreation infrastructures and initiatives

The improvement of sports and recreation infrastructures and practice areas is one of the priorities of the government's plan of action in the area of sports, recreation and physical activity.

A support program for sports and recreation infrastructures will thus be established in concert with partners to provide for an annual investment of $10 million over the next five years, divided equally among Québec and its partners.

Moreover, a new program will include rural communities, thereby allowing them to hire representatives whose primary role will be to ensure liaison between municipalities, local and regional sports and recreation associations, and schools. Funding of $2.0 million will be provided for this program.

Furthermore, with a view to hosting international sports events in Québec and allowing top-calibre athletes to train under optimal conditions, an additional $10 million will be invested annually to retrofit and develop sports equipment that meets new international standards.

For these purposes, the Secrétariat aux Loisirs et aux Sports will obtain additional funding of $2.5 million in 2003-2004 and $3.8 million in 2004-2005. The amounts required for 2003-2004 will be drawn from the contingency fund.

2. A MORE PROSPEROUS SOCIETY: TOWARDS FULL EMPLOYMENT

2.1 Bolstering the labour force

One of the important components of the Towards Full Employment strategy is to promote the development of the labour force, increase labour force participation and offset the labour shortage in certain sectors and regions. To that end, all of Emploi-Québec's resources will be mobilized and will be bolstered by the injection of an additional $60 million over three years to step up activities in three areas.

❑ Support for jobs in high demand

To offset labour shortages, Emploi-Québec will allocate an additional $30.0 million over three years to identify jobs in high demand and to increase and diversify training purchases in those sectors. Emploi-Québec will ensure that supply and demand are in line and improve job market information.

To that end, funding for the ministère de l'Emploi et de la Solidarité sociale will be increased by $30.0 million over three years, including $10.0 million in 2003-2004 and $10.0 million in 2004-2005.

❑ Greater access to active training and employment assistance measures for new groups

Labour force training is directly linked to job creation. With regard to training, Emploi-Québec's resources will be fully mobilized, jointly with community organizations specializing in the development of employability, to ensure the availability of a skilled labour force capable of satisfying demand. Special effort will be put into increasing the participation of certain groups of people who are less active in the job market.

Additional measures will target, in particular, individuals who, with supplementary or refresher training, could accede to jobs difficult to fill. Individuals who do not receive public income support or who hold precarious or part-time jobs or jobs beneath their skills are among those covered by these measures.

To that end, funding for the ministère de l'Emploi et de la Solidarité sociale will be increased by $15.0 million over three years, including $5.0 million in 2003-2004 and 2004-2005.

❑ Intervention strategy for workers 45 and over

To better meet the needs of individuals and businesses, Emploi-Québec adopted an intervention strategy for workers 45 and over. The strategy was presented by the Minister for Employment in January 2003.

The objective is twofold: promote job maintenance and re-entry into the job market for workers 45 and over who, in many cases, experience extended periods of unemployment; and increase the labour force participation of this age group.

To finance this strategy, funding for the ministère de l'Emploi et de la Solidarité sociale will be increased by $15.0 million over three years, including $5.0 million in 2003-2004 and $5.0 million in 2004-2005.

❑ Modernization of education infrastructures and equipment

In conjunction with the Towards Full Employment strategy, the government announced new investments of $250 million in the education sector by 2005-2006 to improve the schooling of the overall population. These investments will make it possible to, among other things, modernize infrastructures and equipment, develop vocational training programs and provide access to better tools in the research and technology fields.

As regards vocational training, $70 million will be invested to better meet training needs and better adapt to the reality of the job market.

In the college network, projects to acquire specialized equipment and develop infrastructures total $150 million and target cutting-edge sectors, such as:

— electrical engineering technologies;

— civil engineering, building engineering and architecture techniques;

— aerospace technologies;

— media arts and media technologies.

Lastly, at the university level, $30 million in investments will help train a highly qualified labour force, in particular through the purchase of new equipment to meet the increase in the number of students at the main engineering schools, such as the École polytechnique de Montréal, the École de technologie supérieure and Concordia University.

Additional amounts of $14.0 million in 2003-2004 and $26.0 million in 2004-2005 will be granted to the ministère de l'Éducation to finance these investments.

2.2 Promoting investment

❑ For more competitive businesses

When the Towards Full Employment strategy was tabled in December 2002, the government proposed the deployment of an integrated approach to help businesses become more competitive. Today, the government is announcing the implementation of this approach, which includes the following components:

— the Québec strategy to improve the competitiveness of businesses;

— the Québec strategy for export development.

Moreover, the government will promote spinning off as a means of supporting entrepreneurship, thereby maximizing the results of its integrated approach.

Québec strategy to improve the competitiveness of businesses

The aim of the Québec strategy to improve the competitiveness of businesses, launched in September 2001, is to accelerate dissemination of knowledge of the best business practices within businesses and to give businesses the means necessary to take action and begin implementing the practices. Knowledge dissemination, business process diagnosis, assistance in implementing the best business practices and support for hiring specialized resources in businesses are just some of the measures made available to businesses to improve their competitiveness.

To attain the objectives of the strategy, additional funding of $8.7 million in 2003-2004 and $25.1 million in 2004-2005 will be granted to the ministère des Finances, de l'Économie et de la Recherche. The amounts required for 2003-2004 will be drawn from the contingency fund.

Support for export development

To assist businesses faced with the changing global trade environment and with their own evolving needs, the government is introducing the Québec strategy for export development. The objective is to prompt more businesses to adopt a genuine export strategy, and to increase the number of regular exporters. Ongoing support will be provided to businesses according to their characteristics. Services to exporters will also be reinforced, in particular at the development and implementation stage of their marketing strategy. Networking will also be promoted, to encourage businesses to work together in order to capitalize on business opportunities that exceed their individual capacities. Joint action initiatives between the various stakeholders will also be implemented to give greater impact to the new measures.

A $60.7-million envelope will be allocated to the strategy by 2005-2006. To that end, additional funding of $9.6 million in 2003-2004 and $23.8 million in 2004-2005 will be granted to the ministère des Finances, de l'Économie et de la Recherche. The amounts required for 2003-2004 will be drawn from the contingency fund.

Spinning off promoted

The results of the measures to improve the competitiveness of businesses will be enhanced if the measures are accompanied by a broadening of Québec's entrepreneurial base. Spinning off, which, for an employer, consists in proactively supporting the creation of businesses by employees, is a means of contributing to the development of that base. It is an approach that is presently underdeveloped in Québec. The government therefore plans to promote spinning-off activities to facilitate business start-ups, improve their survival rate and create more jobs.

To that end, an additional $0.4 million will be granted to the ministère des Finances, de l'Économie et de la Recherche in 2003-2004 and 2004-2005. The amounts required for 2003-2004 will be drawn from the contingency fund.

❑ Improving access to financing for businesses

Increased support for SME financing by La Financière du Québec

- **Renewal of the "working capital assistance" component**

In the 2002-2003 Budget Speech, working capital assistance administered by La Financière du Québec was made available for all activities eligible for the SMB Financial program. To that end, a $1[illegible]0-million envelope for loans and guarantees, available until March 31, 2003, was freed up.

There is presently no more money in that envelope and a number of potential applications are pending. Several sectors in difficulty—such as telecommunications, the lumber industry, aeronautics, and machinery and equipment manufacturing—need additional assistance for their recovery.

The government is renewing the terms and conditions of this component until March 31, 2004 and injecting an additional $50 million.

To that end, another $22.5 million is required in 2003-2004, and will be drawn from the FAIRE program envelope.

- **Extension of financing possibilities for the investment and growth working capital components**

Under the current terms and conditions of the Financement PME program, the granting of loans and loan guarantees is limited to 75% of costs for most projects. Even when a business's financial performance is adequate, the business must often contract a second loan to round out its financing and, as a result, La Financière du Québec is left with second-ranking, rather than first-ranking securities, even though it provides the bulk of the financing.

The government is introducing a measure whereby these types of assistance can represent 100% of a growth-oriented SME's investment project costs or additional working capital needs, where the SME's ability to repay makes this possible and the long-term debt/shareholders' equity ratio is adequate. Thus, La Financière du Québec will be better able to fund efforts by SMEs to renew their equipment and increase their productivity.

This measure will be funded under envelopes that have already been allocated.

Private Investment and Job Creation Promotion Fund (FAIRE)

- **Continued application of the $5-million/50-job threshold**

As of the 2002-2003 Budget Speech and until March 31, 2003, eligible projects must include an investment of at least $5 million over a 36-month period, compared with $10 million previously, or create at least 50 jobs over a 24-month period in the business that carries out the project, compared with the 100 jobs previously required.

The government will extend the threshold of $5 million and 50 jobs beyond March 31, 2003, which will be of benefit to a number of projects, particularly in the outlying regions.

This measure will be funded under the current FAIRE program envelope.

- **Elimination of the premium regarding loans and loan guarantees**

In the 2002-2003 Budget Speech, the terms and conditions of the FAIRE program were modified to allow financial assistance under the FAIRE program to be combined, upon payment of a premium, with the 10-year tax holiday for major investment projects, the refundable tax credit for Gaspésie and certain maritime regions of Québec or the refundable tax credit for processing activities in the resource regions.

To standardize the treatment of the various types of assistance, the government is eliminating the 15% premium for repayable contributions and the 10% premium for loan guarantees. Thus, a premium will no longer be payable in addition to the repayment of a loan. Provisions will be made so that these premiums are no longer payable on previously authorized files.

- **Addition of a "financing of modernization and diversification studies" component**

Assistance is currently available under the FAIRE program for feasibility or profitability studies conducted prior to obtaining a worldwide mandate.

The government is broadening that component to allow for the granting of assistance for modernization or diversification studies that could lead to major investment projects potentially eligible for financing under the FAIRE program. Québec businesses will be able to take advantage of this measure, as will Québec subsidiaries of foreign businesses, in particular when the parent company is considering closing them.

This measure will be funded under the current FAIRE program envelope.

- **Renewal of the Forêt-FAIRE program**

The Forêt-FAIRE program was introduced on August 12, 1998 and ends on March 31, 2003. The purpose of the program is to promote investments of between $2 million and $10 million in the secondary processing of softwood products and the primary and secondary processing of hardwood logs. In addition, the program makes it possible to finance projects creating at least 50 jobs and to maximize the economic spinoffs of natural resources, in particular in the resource regions.

The program, which is under the responsibility of the ministère des Ressources naturelles, was allocated commitments of $15 million and is funded under the overall FAIRE program envelope. Given that the program has an uncommitted balance of a little over $3 million, the government is renewing it until March 31, 2005, thereby making its end-date coincide with that of the FAIRE program.

This measure will be funded under the current FAIRE program envelope.

- **FAIRE program commitment envelope**

The measures in this Budget will be authorized under the current FAIRE program commitment envelope, except for the projects to expand and modernize aluminum smelters, which are financed otherwise.

Support for the development of cooperatives

Given the importance of cooperatives to the economy of Québec and its regions, the government undertook a vast consultation in fall 2001 in order to formulate Québec's first policy on the development of cooperatives.

The Cooperative Development Policy that the government is introducing today is aimed at accelerating the growth and diversification of cooperatives, and at increasing the number of jobs in cooperatives, primarily in outlying regions. To address the development problems raised during the consultation, there are four main areas of intervention:

— adoption of an efficient, innovative legal framework;

— enhancement of the capitalization and financing tools to better adapt them to the reality of cooperatives;

— improvement of consultation services available to cooperatives;

— recognition of the role played by cooperatives in the economic and social development of Québec.

A budgetary envelope of $20.0 million will be allocated to the Cooperative Development Policy over three years. To that end, additional funding of $4.5 million in 2003-2004 and $7.9 million in 2004-2005 will be granted to the ministère des Finances, de l'Économie et de la Recherche. The amounts required for 2003-2004 will be drawn from the contingency fund.

Action plan for the development of social economy businesses

As part of this Budget Speech, the government is implementing an action plan for the development of social economy businesses. This plan, which has been allocated a budget of $20 million over three years, leads to an injection of at least $50 million in addition to creating and reinforcing some 5 000 jobs in social economy businesses.

- **Infrastructure improvement program**

Social economy businesses have considerable investment needs with regard to their infrastructure and equipment with a structuring impact; however, their financial resources in that regard are insufficient due to limited access to traditional financing.

To enable these businesses to invest massively in their infrastructure and equipment, the government is introducing a program to improve the infrastructure and equipment of social economy businesses (PAMIE), to which a $20-million capital expenditure budget will be allocated.

- **Better access to financing**

Social economy businesses need better-adapted financing tools in order to achieve their full potential. To that end, the Québec government will enhance the terms and conditions of the capitalization program for social economy businesses. A reduction of 3.5 percentage points in the interest rate on loans from La Financière du Québec will be granted in conjunction with this program, and assistance for struggling businesses will be introduced in order to bolster the precarious financial situation of certain businesses in the social economy.

- **Support for emerging sectors**

People who are disadvantaged because of a low income or a handicap, for example, have limited access to such sectors as culture, new information technologies and tourist activities. Thus, the supply of services in these sectors must remain adequate and be developed. To that end, the Québec government is establishing a program for the development of emerging sectors in the social economy. This program, to which a budget of $7.5 million over three years has been allocated, should enable more than 150 businesses to step up their development.

- **Recognition and development of the social economy**

Social economy businesses are still not well known in Québec society. The Québec government therefore plans to support various targeted actions designed to give a higher profile to social economy businesses and help them develop their markets. For example, the social economy task force and the creation of a social economy portal will be backed by the Québec government.

For all measures relating to the social economy, $5.1 million in 2003-2004 and $7.2 million in 2004-2005 will be added to the budgetary envelope of the ministère des Finances, de l'Économie et de la Recherche. The amounts required for 2003-2004 will be drawn from the contingency fund.

❑ Plan to upgrade and rebuild the road network – Year II

The road network is a crucial factor in economic development in all regions of Québec. It is vital that, in addition to being safe for the public, the network provide an adequate link between the regions of Québec. Thus, an additional $400 million was invested in 2002-2003 to improve Québec's road network. These investments were included in the $3-billion, ten-year plan to upgrade and rebuild the road network.

The government plans to pursue the implementation of the upgrading plan. To that end, investments of $200 million will be added to the $929 million in investments already provided for in 2003-2004, for a total investment of $1 129 million in our road network.

Additional funding of $13.0 million in 2003-2004 and $28.7 million in 2004-2005 will be allocated to the ministère des Transports. The amounts required for 2003-2004 will be drawn from the contingency fund.

❑ Stimulation of the development of the Parc industriel and portuaire de Bécancour

The Parc industriel et portuaire de Bécancour is located along the St. Lawrence River. It is the only national port that belongs to the Québec government. Close to $130 million has already been invested in it over the years. Approximately two-thirds of the space set aside for the establishment of industrial businesses is still unoccupied. The role of the Société du parc industriel et portuaire de Bécancour, a mandatary of the Québec government, is to promote the establishment of new, major businesses and to make available the infrastructures necessary to establish and operate them.

To stimulate the development of the Parc industriel et portuaire de Bécancour, the government will implement two new initiatives:

— The first initiative is aimed at reinforcing the park's maritime and intermodal infrastructures by setting up a dock crane service accessible to several stevedores. This project, which could reach $5 million in value, will be carried out in accordance with terms and conditions to be determined in cooperation with the ministère des Transports and the private sector. To that end, the ministère des Finances, de l'Économie et de la Recherche will receive an additional $0.5 million as of 2003-2004.

  The amounts required for 2003-2004 will be drawn from the contingency fund.

— The second initiative consists in providing job creation assistance to businesses using the port infrastructure and carrying on their activities in the territory of the park. This assistance will be granted for all jobs relating to manufacturing and processing activities, with the exception of primary metal processing activities.

The financial assistance granted will be equal to 40% of the salary paid for a year for eligible jobs, without exceeding $10 000 per job created, and will apply to jobs created by March 31, 2005. Investissement Québec will be responsible for administering the assistance and, for that purpose, will dispose of a commitment envelope of $3.3 million until March 31, 2005. To that end, additional funding of $1.8 million in 2003-2004 and $1.5 million in 2004-2005 will be granted to the ministère des Finances, de l'Économie et de la Recherche. The amounts required for 2003-2004 will be drawn from the contingency fund.

Lastly, work will continue in conjunction with the Marine Transportation Policy adopted in August 2001, in order to evaluate the timeliness of introducing other financial or fiscal measures that could be of benefit to the port of Bécancour in particular.

2.3 Taking greater advantage of technological change

❑ Improvement of research infrastructures

Research centres, such as universities, must have state-of-the-art equipment at their disposal if they are to participate fully in technological change.

To that end, the government is earmarking a budget of $50 million until 2005-2006 for the construction or development of new public research facilities, particularly relating to biomedical, agri-food, veterinary and marine technologies, as well as for the implementation of projects such as the construction of research centres, upgrading of existing research infrastructures and the purchase of specialized equipment.

To finance these investments, additional funding $4.0 million will be granted to the ministère des Finances, de l'Économie et de la Recherche as of 2003-2004. The amounts required for 2003-2004 will be drawn from the contingency fund.

❑ Better financing of high-technology firms

Biotechnology development fund

A large number of SMEs in the biotechnology sector have benefited from the numerous incentive measures introduced by the Québec government, as well from the support of Québec's venture capital industry during the start-up phase. Several of these SMEs have now reached the development stage, but the lack of access to venture capital severely limits their ability to grow and sometimes even compels them to dispose of their property to foreign interests.

Under its Towards Full Employment strategy, the government stressed the importance of creating a large venture capital fund to provide adequate capital funding to finance firms in the later rounds of financing.

The government wants to encourage the creation of a ten-year biotechnology development fund with minimum start-up capital of $300 million. The fund would take the form of a limited partnership in which the government would invest a maximum of $100 million, to be equally shared between the Société générale de financement du Québec and the Société Innovatech du Grand Montréal, i.e. $50 million each. To achieve the desired leverage effect, the government's contribution will be conditional upon a minimum investment of $200 million from institutional, private or foreign investors. The Fonds de Solidarité FTQ has already committed $50 million of this amount.

The fund would invest in growing Québec biotechnology firms that have progressed beyond the start-up stage. It would participate in rounds of financing of approximately $15-25 million through equity capital, equity loans or other types of loans. The fund would also serve to step up consolidation of certain corporations so that they may benefit from the synergies created by the fund.

The government investments made through the Société Innovatech du Grand Montréal and the Société générale de financement du Québec would be reported as government investments and have no budgetary impact.

Bio-Levier capitalization loan

In the Supplement to the 2002-2003 Budget, the government introduced the Bio-Levier loan program to support the capitalization efforts of Québec's biotechnology firms. A loan envelope of $100 million was earmarked for this program, which was to run until March 31, 2003.

The government is extending the program for another year, i.e. until March 31, 2004. In addition, the remaining loan envelope will be renewed and receive another $50 million. As well, given the time required by businesses to finish raising funds, applications for assistance will be accepted until March 31, 2004, although the loan envelope will remain available until March 31, 2005.

The ministère des Finances, de l'Économie et de la Recherche will receive an additional $7.0 million in 2003-2004 and $5.5 million in 2004-2005 for that purpose. The amounts required for 2003-2004 will be drawn from the contingency fund.

Increased funding for the Innovatech corporations

The Innovatech corporations were established to promote and support initiatives that will better enable businesses in their territory to innovate in technology development. The long-term profitability of these investment projects requires patient capital during the start-up and development phases.

In 1998, the four Innovatech corporations were recognized as venture capital companies and were converted into capital stock corporations. In the coming months, two Innovatech corporations, the Société Innovatech du Grand Montréal and the Société Innovatech Québec et Chaudière-Appalaches, will reach the amount of share capital currently authorized under their incorporating acts.

To ensure the continued operation of these corporations and help innovative Québec businesses through the difficult economic conditions affecting the high-tech sector, the government will be increasing the Innovatech corporations' authorized capital. The necessary legislative amendments will be made to this effect. The maximum value of shares of the Société Innovatech du Grand Montréal's capital the government may subscribe for will be raised by $100 million, in addition to the increase that may be required for the biotechnology development fund. The maximum subscription for the Société Innovatech Québec et Chaudière-Appalaches will be raised by $60 million.

Increased funding for college centres for technology transfer

The Québec policy on science and innovation, released in January 2001, confirmed the fact that college centres for technology transfer are technology-based research centres with special ties to the business community. These centres need more funding in order to play a more meaningful role.

For that purpose, the ministère des Finances, de l'Économie et de la Recherche will receive a budget envelope of $3.0 million as of 2003-2004. The amounts required for 2003-2004 will be drawn from the contingency fund.

❑ Support for business incubation

Financing of incubators

The assistance offered by business pre-incubators and incubators enables better support for the development of new businesses, faster growth and a higher survival rate. Accordingly, incubation is a significant development tool for renewing the industrial structure and creating jobs.

There are currently over 20 business pre-incubators and incubators in Québec, 12 of which are networked in Québec through the IncubAction association.

To ensure business development in all regions of Québec, the government is introducing a financial support program for business pre-incubators and incubators. The primary purpose of the program is to ensure adequate, steady financing for incubation organizations so that they can offer quality support services and thereby have a greater impact on business and job creation.

For that purpose, additional funding of $5.0 million in 2003-2004 and $6.0 million in 2004-2005 will be allocated to the ministère des Finances, de l'Économie et de la Recherche. The amounts required for 2003-2004 will be drawn from the contingency fund.

Financing of incubated businesses

To strengthen the financing of fledgling businesses, the government is introducing a special precapitalization component for incubated businesses into La Financière du Québec's SMB Financial program. The terms of the new component are as follows:

— a maximum 3-year moratorium on principal repayments;

— a maximum loan of $500 000, including a risk premium;

— the loan amount may not exceed the total contributions from other investors for the same project (individuals or financial institutions);

— incubators must be accredited by an organization approved by La Financière du Québec.

This measure will be financed from the envelopes already planned.

❑ Support for concerted regional action in research, science, technology and innovation

New regional economic development initiatives are dependent on the ability to integrate research, innovation and new technologies with local resource development. This factor was acknowledged by the majority of partners and the government at the recent *Rendez-vous national des régions*. The support program for concerted regional action in research, science, technology and innovation enables regions to clearly identify then assess their strengths before developing new ways to consolidate their niches of excellence. However, the funding already allocated to this program in 2003-2004 is insufficient to sustain the 30 or so projects currently under review.

To pursue these projects, additional funding of $2.0 million in 2003-2004 and $3.0 million in 2004-2005 will be granted to the ministère des Finances, de l'Économie et de la Recherche. The amounts required for 2003-2004 will be drawn from the contingency fund.

❑ Nanotechnology development plan

For several years, the Québec government has encouraged development of the new economy. Its 2001 policy on science and innovation acknowledged the strong potential of nanotechnologies for key sectors of Québec's economy, particularly aerospace, health, biotechnologies, information technologies and advanced materials.

To stimulate this promising sector and encourage related research, the government intends to adopt a strategic development plan in consultation with industry stakeholders, including academic institutions, Nano-Québec and the Conseil régional de développement de l'Île de Montréal.

To that end, the ministère des Finances, de l'Économie et de la Recherche will receive additional funding in the amount of $1.5 million in 2003-2004. This amount will be drawn from the contingency fund.

❑ Support for sectors with a structuring effect

Financial support for biophotonics

Québec is already a recognized centre of excellence in the field of optics and photonics, primarily thanks to the achievements of world-class research centres such as the Institut national d'optique (INO), the Centre d'optique, photonique et laser at Université Laval and Defence R&D Canada Valcartier.

To encourage the emergence of new optics/photonics applications while supporting efforts to promote these technologies, the government intends to financially support two initiatives that will stimulate the development of biophotonics, a field that integrates photonics and human, animal or plant biotechnologies.

These initiatives involve INO and the infrastructure financing assistance program.

❑ Institut national d'optique

INO is a non-profit organization that contributes substantially to the wider visibility of optics as a sector of activity. In fact, its activities have helped make the Québec City area a world-class centre of excellence. Relying on the disciplinary expertise of its 225 employees, INO wants to go one step further and develop new applications in the life sciences and agri-food sectors.

To support this initiative, the Québec government intends to grant INO financial assistance in the amount of $3.6 million, equally shared over three years, to hire new researchers capable of developing its activities.

To that end, an additional $1.2 million will be injected into the budget of the ministère des Finances, de l'Économie et de la Recherche as of 2003-2004. The amounts required for 2003-2004 will be drawn from the contingency fund.

❑ Infrastructure financing assistance program

Québec Biophotonique, a non-profit organization that fosters the development of biophotonics, has partnered with Université Laval and the Université de Sherbrooke in a proposal involving the establishment of centres of biophotonics expertise in various regions of Québec.

These projects were deemed innovative because they open new doors to the identification and treatment of disease. They are eloquent examples of applications for photonics technology in key sectors such as health. One of the projects entails the establishment of a neurophotonics research centre at the Centre hospitalier Robert-Giffard in Québec City.

To provide targeted financing for these research centres, the government intends to increase the budget envelope of the infrastructure financing assistance program by $15 million.

To finance this investment, an additional $1.5 million will be injected into the budget of the ministère des Finances, de l'Économie et de la Recherche as of 2003-2004. The amounts required for 2003-2004 will be drawn from the contingency fund.

❑ Enhancement of innovative approaches to social issues

Acute problems such as violence, the exodus of young people from the regions, unemployment and poverty affect quality of life and weaken the socioeconomic and cultural fabric. Moreover, these are problems the government wants to attack through its Horizon 2005 plan. Because these social issues are evolving more and more rapidly, they demand continuous monitoring and innovative solutions tailored to increasingly complex situations.

To increase the spinoffs generated by research spending, the government will provide financial support to the Centre de liaison sur l'intervention et la prévention psychosociale to spur the development and dissemination of research findings for the purposes of social innovation.

The ministère des Finances, de l'Économie et de la Recherche will receive additional funding of $1.5 million in 2003-2004 and $2.0 million in 2004-2005 to that end. The amounts required for 2003-2004 will be drawn from the contingency fund.

❑ Promotion of science and technology to young people

To offset young people's lack of interest in science and technology and to ensure scientific and technological progress in Québec, 2004 will be devoted to promoting science and technology and careers in these fields to youth.

The communication spending required by these efforts will be supported by an injection of $1.0 million in 2003-2004 and $0.5 million in 2004-2005 into the envelope of the ministère des Finances, de l'Économie et de la Recherche. The amounts required for 2003-2004 will be drawn from the contingency fund.

2.4 Making sure the regions prosper

❑ Ensuring vibrant businesses in the regions

Regional business assistance fund

A number of regional delegations at the fall 2002 *Rendez-vous national des régions* expressed the need for greater control of their economic development and greater ability to act on investment decisions at the regional level. The government noted these requests and promised to look at solutions.

To that end, a regional development funds working group composed primarily of representatives of the regions, institutional investors, Investissement Québec, the ministère des Finances, de l'Économie et de la Recherche and the ministère des Régions was formed. The working group's main observations with regard to business development in the regions are as follows:

— the regions identified the need for more pre-startup and start-up support for businesses;

— the regions would like to be able to support pre-startup projects deemed a priority but that are unable to obtain all of the necessary funding, i.e. to provide them with financial support of up to $200 000;

— government assistance programs for businesses should be shaped to address the specific needs of the regions;

— these problems could be addressed by establishing a regional budget envelope that would be allocated according to a formula tailored to each region.

To enable the regions to address their priorities as regards business support services, a three-year regional business assistance fund is being introduced. For that purpose, a budget envelope will be granted to the regional development councils (CRDs) in each region for allocation to the priorities established by the regional players.

The CRDs will be able to allocate the funds according to flexible terms, notably to enhance the budgets of existing business development programs or funds, enhance worker training programs, support business projects in the pre-startup and start-up stages or support businesses as part of the experimentation with regionalization projects.

The attendant financial assistance could take the form of loans, loan guarantees or non-refundable contributions. A minimum financial contribution by the project promoter will be determined by the region concerned. Moreover, the financial support provided by the fund will be exempted from the rules governing cumulated assistance under government programs. The directions for the use of the budget envelope will be determined by the ministère des Régions. The CRDs must account for their use of the fund to the ministère des Régions, which will be responsible for assessing the results achieved.

Given the economic disparity between the resource regions and the central regions, particularly the unemployment rate discrepancy, the resource regions will receive an annual budget of $2.0 million, while the central regions will receive a budget of $1.0 million. As well, a matching annual budget of $4.0 million will be set aside for business support initiatives, notably in cooperation with SOLIDEQ, which supports the local employment development investment corporations network.

Resource regions	Central regions
Bas-Saint-Laurent	Estrie
Saguenay–Lac-Saint-Jean	Outaouais
Mauricie	Chaudière-Appalaches
Abitibi-Témiscamingue	Lanaudière
Côte-Nord	Laurentides
Nord-du-Québec	Montérégie
Gaspésie–Îles-de-la-Madeleine	Centre-du-Québec

For that purpose, additional funding of $25.0 million will be granted to the ministère des Régions in 2003-2004 and 2004-2005. Depending on the means of action determined by the regional stakeholders, this envelope could enable an injection of up to $60.0 million annually to finance regional businesses.

In addition, the government will continue to work with the regions concerned, namely Saguenay–Lac-Saint-Jean and Abitibi-Témiscamingue, to set up regional investment funds created with local capital, particularly worker pension funds, according to the terms announced at the *Rendez-vous national des régions*. The new fund offers matching financing to support the regional investment funds' start-up. It will also serve to consolidate the Société de diversification économique de l'Outaouais, a request made by the stakeholders from this region.

Financing of ACCORD projects

At the *Rendez-vous national des régions*, the government officialized the implementation of *Action concerté de coopération régionale de développement* (ACCORD) projects. ACCORD projects are economic development agreements between the government and each of the regions identifying the niches of excellence to be targeted by development projects.

ACCORD projects involve two stages. First, an ACCORD I agreement is signed, identifying the priority niches of excellence. ACCORD II agreements are then signed to ensure implementation of the investment projects and identify the necessary business support services.

To ensure targeted support for projects arising from ACCORD agreements in all of the participating regions, the government committed to financing ACCORD projects at the *Rendez-vous national des régions*. To that end, the balance of the support fund for the development of niches of excellence will be transferred to a new ACCORD fund and reserved for the resource regions. Furthermore, this fund will be increased over the next three years to ensure funding for projects in central and resource regions.

For that purpose, the ministère des Régions will receive additional funding in the amount of $17.3 million in 2003-2004 and 2004-2005.

❑ Assistance for agriculture, fisheries and forestry

Assistance for agri-food and fisheries

The Québec policy on food processing was released in June 2002. Flowing from the 2001 *Rendez-vous de mi-parcours*, the policy aims to increase the value of exports, market shares, investments and the added value of Québec products. The action plan is designed around clearly identified areas of intervention, namely: access to local and international markets, development of niche and local speciality products, and technological innovation and investment. The government is confirming its support for industry partners.

Québec's greenhouse industry has developed singular expertise based on artificial lighting. This technology offers consumers access to top-quality fruits and vegetables year-round as well as ornamental horticulture products. Despite the outstanding results, this process has not yet reached its full growth potential. The government is therefore announcing a support and development plan for the greenhouse industry that is built on research and development and energy and technology-efficient facilities. The plan includes investment assistance to enable the construction of new, efficient facilities while fostering job creation in the regions. These measures will run for three years.

In the 1999-2000 Budget Speech, the government announced the allocation of $18 million over four years to support fisheries, which were being severely affected by the decline in fish stocks. The maritime regions have since benefited from numerous projects with a structuring impact, notably commercial shellfish farming and the processing of marine products.

Because it takes a long time for the marine aquaculture to reach maturity. the above assistance measures, which end on March 31, 2003, are being renewed to provide entrepreneurs with support services. The new funding will foster technological innovation, development of new value-added products, business financing and consensus-building at the local level.

To those ends, the ministère de l'Agriculture, des Pêcheries et de l'Alimentation will receive $16.5 million in 2003-2004 and $22.5 million in 2004-2005. The amounts required for 2003-2004 will be drawn from the contingency fund.

Support for private forest development agencies

Private-forest management comes from a partnership between municipalities, the forest industry, forest producers and the government. This partnership was given concrete expression in 1994 through the creation of 17 regional private forest development agencies.

Timber harvested in private woodlots accounts for nearly 20% of Québec's annual timber harvest. Maintaining and increasing the yield of forests under private ownership is crucial to the development of rural communities. Silvicultural work, commercial thinning and other reforestation activities strengthen and ensure the development of forest companies.

To increase private-forest development, additional funding of $5.0 million will be injected into the budget of the ministère des Ressources naturelles in 2003-2004 and 2004-2005. The amounts required for 2003-2004 will be drawn from the contingency fund.

❑ Support for the tourism industry

Investment by the Société des établissements de plein air du Québec

The Société des établissements de plein air du Québec (SÉPAQ) is the government agency mandated to operate and develop natural sites and tourist facilities entrusted to it under its incorporating act.

To raise the profile of Québec's natural attractions and encourage economic and tourism development at the regional level, the government will finance investments in the parks and some of the other public lands administered by SÉPAQ. The investment plan includes three components: construction of tourism infrastructures on Anticosti Island as part of the project to create an intershore link between the Gaspé, Anticosti Island and the North Shore, consolidation and development of activities and services offered in Québec parks and wildlife reserves and consolidation of tourist establishments.

To implement all three components of the investment plan, SÉPAQ will have to contract loans totalling $87 million over 15 years. It must start repaying those loans in 2005-2006, when the work has been completed. In order to service the related debt, the Société de la faune et des parcs du Québec will receive additional funding in the amount of $8.9 million as of fiscal year 2005-2006, until the extinguishment of the debt.

Continued support for major international events in Québec

In its 2000-2001 Budget Speech, the government announced the awarding of $30 million in financial assistance to the Société des événements majeurs internationaux du Québec (SEMIQ), a non-profit corporation established to support, for a period of three years, the development efforts of major international events and help maintain their quality standards that are recognized worldwide.

The economic benefits thus far show significant growth in Québec's major international events. These events have generated a $52-million increase in economic activity, supported over 1 000 more jobs and raised the Québec government's annual revenues by $9 million.

SEMIQ's action has also supported events in the regions that, while smaller in scale, offer major potential for tourism development; for example, the Festival en chanson de Petite-Vallée in the Gaspé and the Festival du cinéma international in Abitibi-Témiscamingue.

The government therefore intends to pursue its efforts in respect of these events to allow them to distinguish themselves and develop on an increasingly more competitive international stage. The public-private partnership established by the government aims to ensure these events benefit from some of the economic spinoffs they generate, which tend to benefit the tourism industry and governments.

To that end, financial assistance of $33.0 million over three years will be granted to SEMIQ. Tourisme Québec will be responsible for monitoring and auditing the project.

SEMIQ's activities will be subject to strict reporting, accountability and performance rules. Among other things, SEMIQ will have to demonstrate that its action indeed maintains or increases the economic benefits arising from the events it has supported financially. The subsidy will be paid to SEMIQ based on needs, and the commitments in subsequent years will be based on the achievement of objectives. SEMIQ's audited financial statements and an independent auditor's report showing the use of the subsidy must be submitted to the government.

The composition of SEMIQ's board of directors has been modified to increase government representation. One representative from Tourisme Québec and one representative from the ministère des Finances, de l'Économie et de la Recherche have been appointed to monitor SEMIQ's activities and maintain close cooperation between the local and public-sector representatives.

In addition, the subsidies granted to events will be subject to the provisions of the *Lobbying Transparency and Ethics Act*. This act applies to organizations with a public mandate and governs their relations with lobbyists. It also guarantees that all of the financial support granted benefits the targeted organizations.

The terms of this measure will be established by the Minister responsible for Youth, Tourism, Recreation and Sport.

An additional $11.0 million will be injected into the budget of Tourisme Québec in 2003-2004 and 2004-2005 to that end. The amounts required for 2003-2004 will be drawn from the contingency fund.

Enhancement of financial support for tourist events

To ensure the growth of numerous Québec-wide and regional events with an economic development impact in the regions, the tourist events component of the support program for tourism supply development, administered by Tourisme Québec, will be enhanced.

Additional funding of $1.0 million in 2003-2004 and 2004-2005 will therefore be granted to Tourisme Québec. The amounts required for 2003-2004 will be drawn from the contingency fund.

Development and promotion of winter tourism

The ski and snowmobile industries generate major economic spinoffs and support numerous jobs in all regions of Québec where winter tourism helps diversify the economy at the same time as it provides year-round employment in the tourism industry.

The government wants to work in conjunction with its partners to better exploit the winter tourism potential, while enhancing the quality of the winter tourism product and visitor safety.

This will be done by upgrading the reception and accommodation infrastructures of ski resorts, purchasing snow-making systems and renewing equipment, including replacing mechanical tow lifts, and rethinking certain sections of Québec's snowmobile network to ensure access, maintenance so that trails remain passable over their entire distance, and the safety of both snowmobile trails and accommodations.

Tourisme Québec will jointly finance these capital assets with the industry, as well as make a financial contribution to promotion activities. For that purpose, additional funding of $6.0 million in 2003-2004 and $11.1 million in 2004-2005 will be granted to Tourisme Québec. The amounts required for 2003-2004 will be drawn from the contingency fund.

Tourism Web portal

The growth of tourism largely depends on how much potential customers know about the available attractions and activities and the efforts made to facilitate consumption. That is why Tourisme Québec and Bell Canada signed a partnership agreement in 1999 to develop the e-business centre *bonjourquebec.com*.

The following two projects are designed to foster the Internetworking of local and regional information services and offices located through the territory of Québec:

— the first consists in equipping roughly 100 regional tourist offices with the data banks and technologies used by Tourisme Québec in partnership with Bell Canada under *bonjourquebec.com*.

— the second targets the use of those data banks and other information, reservation, mapping and customer management systems by the regional tourism associations in their activities and their Web sites.

Tourisme Québec will receive a budget of $2.0 million as of 2003-2004 to finance these projects. The amounts required for 2003-2004 will be drawn from the contingency fund.

Investment by the Commission de la Capitale Nationale du Québec

Since its inception in 1995, the Commission de la Capitale Nationale du Québec has headed an impressive investment program, notably in partnership with the Ville de Québec, that is helping making Québec's national capital an extraordinary environment in which to live.

In 2003-2004, a $16.6-million investment program will aim to complete work at the site of the Parliament Building, create and enhance urban complexes, public squares and green spaces, installing lighting systems at representative sites and buildings and improve access to Québec City.

To service the debt related to these investments, the Commission de la Capitale Nationale du Québec will receive $1.3 million in 2003-2004 and $2.7 million as of 2004-2005.

2.5 Other measures

❑ City contracts

"City contracts" are innovative tools with a structuring impact that redefine and renew the Québec government's partnership with a city in various sectors or areas of intervention. It binds the parties, for the term of the contract, in the implementation of concrete development measures for the city under an action plan with set goals in matters of housing, urban and infrastructure renewal, highway and public transportation, social, community and economic development and cultural vibrancy.

In spring 2002, the government announced its intention to enter into tailored contracts with cities of over 100 000 inhabitants. On January 30, 2003, the government made public the contract signed with the Ville de Montréal. In the wake of this agreement, it entered into discussions with the Ville de Québec, which identified the elements of a proposal for a contract with this city.

The funding required to implement the contract with the Ville de Québec will be drawn from the budgets of the departments concerned or from the contingency fund in 2003-2004.

❑ Financial support for organizations

The government intends to financially support certain organizations that play a strategic role in various sectors so as to enable them to maintain or grow their activities in their respective sectors.

The targeted organizations include the Association de planification fiscale et financière (APFF), the Association de la recherche industrielle du Québec (ADRIQ) and the Québec economics chair at the Université du Québec à Montréal's school of management.

The APFF is a non-profit organization involved in various sectors related to tax and financial planning. Among other things, it establishes and disseminates the content of this planning to its members and the Québec public. The government will contribute $750 000 over three years to these activities.

The ADRIQ is a non-profit organization with nearly 8 000 member organizations fostering technological innovation. It spearheads a wide network of enterprises, research centres, universities, finance companies and government agencies. The government will contribute $0.3 million a year to these activities beginning in 2003-2004.

In addition, to enhance the understanding of Québec's economy and ensure greater dissemination of related knowledge among decision makers and the general public, the government will provide financial support to set up the Québec economics chair at the Université du Québec à Montréal's school of management. To that end, the government will contribute $0.7 million over five years.

Financial support will also be granted for various projects aimed at bolstering training in sectors with potential, such as bio-industries, biophotonics and telecommunications. To that end, the government intends to support the setting up of a bio-industry management institute.

The financial support allocated to these projects will be taken from the budget of the ministère des Finances, de l'Économie et de la Recherche.

❑ Smooth functioning of financial markets

Facilitating business investment requires appropriate public regulation of financial markets.

Québec is ahead in the matter, with the pending opening of its Agence nationale d'encadrement du secteur financier and its coordinated action with the other provincial regulating authorities. To maintain this lead, the provinces recently formed a ministers' committee to formulate a concrete action plan for securities regulation. The plan should allow us to continue innovating, protect investors and prevent an unwarranted concentration of financial institutions.

❑ Fair centres

The Québec government will carefully study developmental projects that will strengthen the economy of the targeted region. This includes, for example, proposals for international fair and exhibition centres being formulated in Metropolitan Montréal, Trois-Rivières and Gatineau. Such projects could be carried out under future Québec-Canada infrastructure programs, if agreed to, with participation from the private sector.

Section 3

Financial Impact of Fiscal and Budgetary Measures

FINANCIAL IMPACT OF FISCAL AND BUDGETARY MEASURES

(in millions of dollars)

	Financial impact for the government	
	2003-2004	**2004-2005**
A. REVENUE MEASURES		
1. Measures concerning individuals		
New refundable tax credit for caregivers	– 8.0	– 34.0
Refundable tax credit for maternity or adoption leave taken by self-employed workers	– 1.0	– 10.0
Increase to 200% of the tax credit for residents of remote resource regions regarding interest paid on a student loan	– 1.0	– 3.0
New refundable tax credit for new graduates working in remote resource regions	– 4.0	– 16.0
Tax relief for employee transit passes	– 7.0	– 29.0
Enhancement of retirement assistance	– 9.0	– 22.0
Extension of tax benefits relating to flow-through shares	—	– 2.0
Sub-total	**– 30.0**	**– 116.0**
2. Measures concerning businesses and consumption taxes		
New refundable tax credit for forest access roads	– 4.0	– 18.0
New refundable tax credit for hiring new graduates in remote resource regions	– 1.0	– 4.0
Improvement of the tax credit for on-the-job training in remote resource regions	– 2.0	– 4.0
Partial withdrawal of the limit on the deductibility of rebates paid by a cooperative	—	– 2.0
Tax exemption for biodiesel fuel	– 2.0	– 4.0
Sub-total	**– 9.0**	**– 32.0**
TOTAL IMPACT OF REVENUE MEASURES BEFORE TIGHTENING MEASURES	**– 39.0**	**– 148.0**
Tightening measures		
Planned measures under the *Towards Full Employment* strategy	—	43.0
Fiscal measures for film and television production	—	12.6
Other tightening measures	—	92.4
Sub-total	**—**	**148.0**
TOTAL IMPACT OF REVENUE MEASURES	**– 39.0**	**—**

FINANCIAL IMPACT OF FISCAL AND BUDGETARY MEASURES (cont.)

(in millions of dollars)

	Financial impact for the government	
	2003-2004	**2004-2005**
B. EXPENDITURE MEASURES		
1. A more caring society		
Support to SMEs for the implementation of work-family measures	– 10.0	– 20.0
Priority investments in the biomedical sector	—	– 16.8
Better equipped schools	– 43.7	– 64.0
National strategy to combat poverty	– 50.9	– 53.1
More accessible housing	– 16.5	– 29.1
Enhancing environment quality	– 8.8	– 9.7
Increased support for our cultural vitality	– 38.1	– 38.1
Sports and recreation infrastructures and initiatives	– 2.5	– 3.8
Sub-total	**– 170.5**	**– 234.6**
2. A more prosperous society: towards full employment		
Bolstering the labour force	– 34.0	– 46.0
Promoting investment	– 43.6	– 95.1
Taking greater advantage of technological change	– 27.8	– 26.7
Making sure the regions prosper		
Ensuring vibrant businesses in the regions	– 42.3	– 42.3
Assistance for agriculture, fisheries and forestry	– 21.5	– 27.5
Support for the tourism industry	– 21.3	– 27.8
Sub-total	**– 190.5**	**– 265.4**
TOTAL IMPACT OF EXPENDITURE MEASURES BEFORE TIGHTENING MEASURES	**– 361.0**	**– 500.0**
Tightening measures		
Measures provided for under the *Towards Full Employment* strategy	50.0	50.0
Other measures	350.0	450.0
Sub-total	**400.0**	**500.0**
TOTAL IMPACT OF EXPENDITURE MEASURES	**39.0**	**—**
TOTAL IMPACT OF REVENUE MEASURES	**– 39.0**	**—**
TOTAL IMPACT OF FISCAL AND BUDGETARY MEASURES	**—**	**—**

Note: A negative entry means a cost for the government